

sanity, humanity and science

post-autistic economics review

Issue no. 40, 1 December 2006

back issues at www.paecon.net

Subscribers: 9,410 from over 150 countries

Subscriptions are free. To subscribe, email "subscribe". To unsubscribe, email "unsubscribe". Send to : pae_news@btinternet.com

In this issue:

- **Is the U.S. a Good Model for Reducing Social Exclusion in Europe?**
John Schmitt and Ben Zipperer (Center for Economic and Policy Research, USA) 2
- **Increasing Inequality in the United States**
Dean Baker (Center for Economic and Policy Research, USA)18
- **The Nature of Heterodox Economics**
John B. Davis (University of Amsterdam and Marquette University, Netherlands and USA)23
- **Beyond Talking the Talk: towards a critical pluralist practice**
Alan Freeman and Andrew Kliman (Uni. of Greenwich, UK and Pace Uni., USA) 31
- **Social Cohesion vs. Social Change**
Rick Wolff (University of Massachusetts, Amherst, USA) 54
- **Economics in the *Financial Times***
 - **Baroque Fantasies of a Peculiar Science**
Philip Ball 57
 - **Shun the rational agent to rebuild economics**
Paul Ormerod 59
- **Submissions, etc.** 61

Is the U.S. a Good Model for Reducing Social Exclusion in Europe?*

John Schmitt and Ben Zipperer [Center for Economic and Policy Research, USA]

© Copyright: John Schmitt and Ben Zipperer 2006

Introduction

Sustained, high levels of unemployment in the majority of Europe's largest economies have led many Europeans to look to the United States as a possible alternative economic model. The political right and center in Europe have emphasized what they see as the flexibility and dynamism of the U.S. economy. Much of the left, meanwhile, have argued that high unemployment in Europe, which is often concentrated in specific geographic regions or demographic groups, is the driving force behind "social exclusion" in Europe today. This has led many Europeans – even some in the continent's social democratic parties – to the reluctant conclusion that the United States may be a good model for reducing social exclusion there.

This paper reviews several international indicators of social exclusion to assess how well the United States has done in using its apparently greater flexibility and dynamism to reduce social exclusion. On most measures of inequality, poverty, health, education, crime, and punishment, the United States does not fare well compared to the much-better-funded welfare states in Europe. The gap between U.S. and European performance in many of these dimensions is striking, and not fully acknowledged in the current debate around promoting U.S.-style reforms in Europe. What is more surprising, however, is that the United States, in fact, performs poorly in two areas where U.S. superiority is usually simply taken for granted: incorporating traditionally disadvantaged groups into the paid labor force and providing opportunities for economic mobility.

Income inequality

We start with what is probably the most basic indicator of social exclusion – household income inequality. [Table 1](#) presents data on income inequality for 28 OECD countries in various years during the 1990s and the year 2000 from Smeeding (2004). **(All tables for this paper are on the Web [here](#).)** The final column of the table, which reports data on the Gini coefficient¹, the most common measure of income inequality, shows that the United States (0.37) had the second highest Gini coefficient among the countries with available data – only Mexico (0.49) had higher income inequality by this measure. The United Kingdom (0.35) was the European country with the next highest level of income inequality, followed by Ireland and Italy (both 0.33), with most of the remaining countries in Europe below 0.30. The countries with the lowest Gini coefficients were Denmark (0.24), Belgium (0.25), Finland (0.25), Germany (0.25), the Netherlands (0.25), Norway (0.25), and Sweden (0.25).²

* This paper will appear in a forthcoming issue of the *International Journal of Health Services*.

¹ The Gini coefficient varies from zero to one. A Gini coefficient of zero would indicate perfectly equal distribution of income across all households; a Gini coefficient of one indicates that all income is concentrated in one household.

² The Gini coefficients in the text are calculated using net disposable income, which subtracts taxes and includes transfer benefits. When measured using pre-tax income, the United States is not such an outlier. Using pre-tax

Another basic measure of income inequality is the distance between the 10th, the 50th, and the 90th percentiles of the national income distribution. The greater the distance between points in the distribution, the greater the overall inequality. The first column of Table 1 demonstrate that, in the United States, the 10th percentile household earned about 39 percent of what the median household earned, while the 90th percentile household (see column two) earned about 210 percent of the median. The 10th percentile earner in the United States was further below the median than was the case in every other country in the table except Mexico (28 percent). In every European country except Italy (44), Ireland (46), and the United Kingdom (47), the 10th percentile household made at least 50 percent of median earnings. Among the major OECD economies, 10th percentile households fared best in Norway (57), Sweden (57), and the Netherlands (56).

What is Social Exclusion?

The term social exclusion has had a prominent place in the European debate on social problems and policies. The term grew out of a desire to encourage a richer discussion of economic and social inequality and deprivation, which had traditionally focused on income-based measures of inequality and poverty.

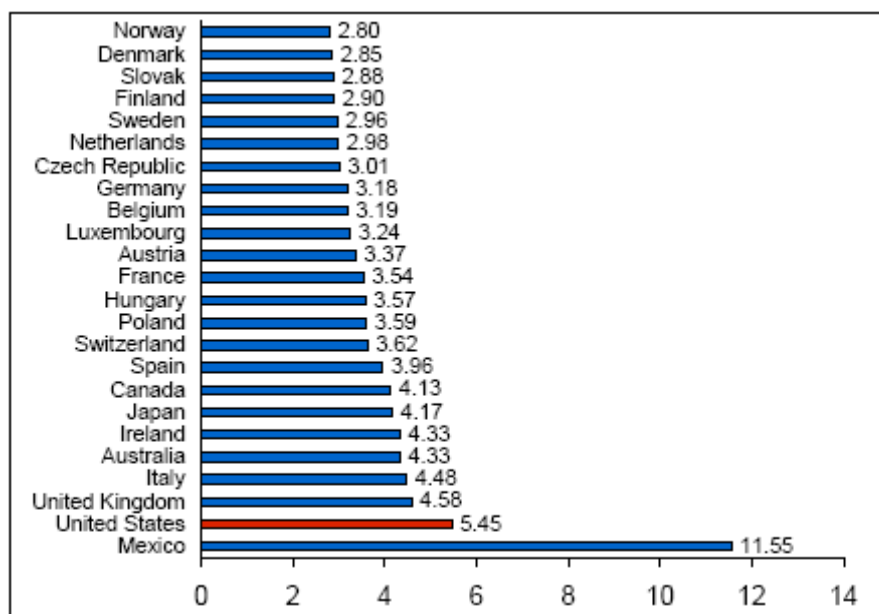
The British government, which has established a Social Exclusion Unit, states that social exclusion is "...about more than income poverty. Social exclusion happens when people or places suffer from a series of problems such as unemployment, discrimination, poor skills, low incomes, poor housing, high crime, ill health and family breakdown. When such problems combine they can create a vicious cycle."
(<http://www.socialexclusionunit.gov.uk/page.asp?id=213>)

According to Ruggeri Laderchi, Saith, and Stewart (2003): "The first use of the term [social exclusion] has been attributed to Lenoir, French Secretary of State for Social Action in Government in 1974, referring to people who did not fit into the norms of industrial societies, were not protected by social insurance, and were considered social misfits." (p. 21) The term grew to encompass "...processes of marginalisation and deprivation which can arise even within rich countries with comprehensive welfare provisions." (p. 21) Today, they note, "[t]he concept now forms a central aspect of [European Union] social policy." (p. 22)

Meanwhile, the 90th percentile household in the United States (210) was further above the median than in almost every other country in the table. Only Mexico (328), Luxembourg (215), and the United Kingdom (215) had larger gaps between the 90th percentile and the median. Incomes at the top were closest to the median in Denmark (155), Slovakia (162), Finland (164), and the Netherlands (167).

income the Gini coefficient in the United States (0.45) lies well within the European range of market income inequality (0.39 to 0.50). Progressive taxes and especially benefits and transfer payments dramatically reduce inequality in most European nations, with only relatively modest effects in the United States.

FIGURE 1. Household income inequality (ratio of 90th to 10th percentiles)



Source: Smeeding (2004)

The third column in the table calculates the ratio of the 90th and 10th percentile earnings, as an additional measure of income inequality (see **Figure 1**). Mexico (11.55) had, by far, the highest inequality using this simple gauge of inequality. The United States (5.45) was next, well ahead of the United Kingdom (4.58), Australia (4.33), and Canada (4.13). The countries with the lowest "90-10" gap were Norway (2.80), Denmark (2.85), Slovakia (2.88), Finland (2.90), and the Netherlands (2.98).

By most measures, the United States is the most unequal of the major OECD countries, with a higher Gini coefficient, lower relative incomes at the 10th percentile, and a bigger gap between the incomes of rich and poor households than in any of the countries in Western Europe. Whatever capacity the United States might have for using its labor-market flexibility and dynamism to create jobs and channel potential workers into employment (which we examine below), this capacity has not avoided the emergence of substantial levels of income inequality with the resulting potential for heightened levels of social exclusion.

Poverty

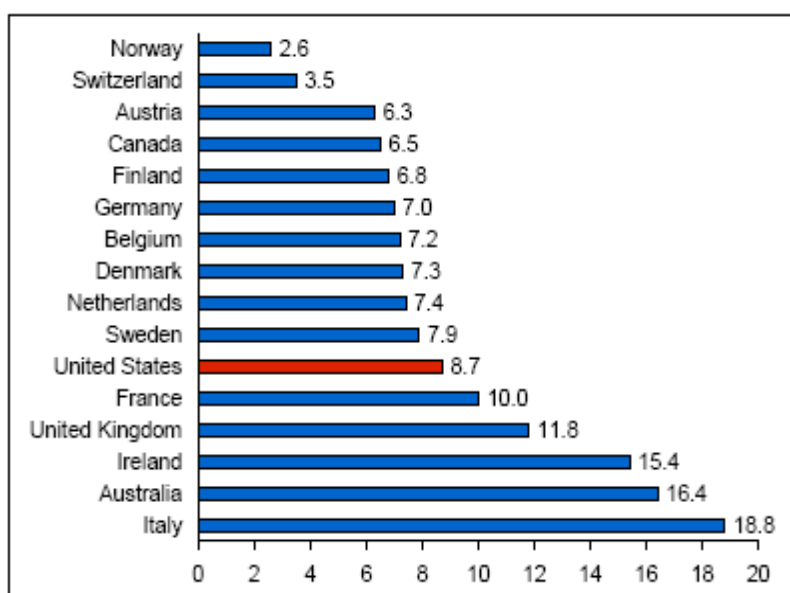
Income inequality is, in and of itself, a cause for social concern,³ but poverty – extreme relative or absolute deprivation – is generally seen as a more important indicator of potential social exclusion. As Townsend (1979) argues: those in poverty have “resources... so

³ See, for example, Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <http://www.ggdc.net/>.

seriously below those commanded by the average family or individual that they are in effect excluded from ordinary living patterns, customs and activities.”⁴

Table 2 presents data from Scruggs and Allan (2005) on relative and absolute measures of poverty at different points in time over the years 1990 to 2000 for a subset of the countries in the earlier figures on income inequality. The first column of Table 2 contains data on the relative poverty rate, defined as the share of the population in households with incomes below 40 percent of the median (which is obviously closely related to income inequality). Consistent with the earlier results for income inequality, the United States (10.7 percent) had the highest rate of relative poverty, followed by Ireland (8.0) and Italy (7.3). Relative poverty was lowest in Finland (2.1), Norway (2.8), Belgium (3.2), France (3.3), and Sweden (3.6).

FIGURE 2. Absolute Poverty Rate (percent of population)



Source: Scruggs and Allan (2005)

With respect to absolute poverty (see column two of Table 2 and **Figure 2**), defined here as earning at least 40 percent of the inflation-adjusted 1986 median income in the United States (converted to local currencies using purchasing power parity exchange rates), the United States, which has a much higher GDP per capita than most of the other countries in the sample,⁵ does substantially better. About 8.7 percent of the U.S. population was living in poverty by these criteria, well below rates in Italy (18.8), Australia (16.4), Ireland (15.4), and the United Kingdom (11.8). The United States also does somewhat better than France (10.0). The rest of the European countries in the table, however, have lower absolute poverty rates, despite also having income levels that are 70 to 80 percent of U.S. levels. Norway (which has

⁴ Smeeding (2006) defines poverty as half of national median income and finds the pattern of poverty remains largely the same in the analysis by Scruggs and Allan (2005).

⁵ See, for example, Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <http://www.ggdc.net/>

a GDP per person close to that of the United States) had an absolute poverty rate of only 2.6 percent; the rate in Switzerland was 3.5 percent.⁶

Education

Education is arguably the single most important tool available to combat social exclusion. [Table 3](#) shows the educational attainment rates, standardized by the OECD, for our sample of OECD countries for 2003. The first two columns examine the share of the adult population with at least an upper-secondary education (roughly the equivalent of a high-school degree in the United States). The first column gives the figures for all adults age 25 to 64. The United States had the highest share of high-school-equivalent graduates, with 88 percent. Norway (87) and Slovakia (87) trailed close behind. In most of the rest of Western Europe between 60 and 80 percent of 25-to-64 year olds had completed the equivalent of high school. The biggest exceptions in Europe were Portugal (23), Spain (43), Italy (44), and Greece (51).

European countries do considerably better, however, when we focus on just 25-to-34 year olds (see the second column of Table 3). High-school completion rates for this younger group are generally much higher than for the full 25-to-64 year olds, while rates are almost identical across the two age ranges in the United States (87-88 percent). Nevertheless, the United States generally still does better than European countries do. The exceptions are Finland (89), Sweden (91), Czech Republic (92), Slovakia (94), and Norway (95); while Austria (85), Germany (85), and Denmark (86) do not lag far behind the United States.

The last two columns of the same table show the share of the adult population with roughly the equivalent of a four-year college degree or more. Once again, the United States, with 38 percent of 25-to-64 year olds with college degrees (see column three), does well compared to Western Europe. Only Denmark (31), Norway (31), and Sweden (33) have at least 30 percent of their adult populations with college degrees. Most Western European countries fall in the 20-30 percent range, with several in the teens.

When we look just at 25-to-34 year olds (see column four), many European countries do almost as well or better than the United States (39 percent) with respect to college graduates: Denmark (35), France (37), Ireland (37), Spain (38), Belgium (39), Finland (40), Norway (40), and Sweden (40). Several Western European countries, however, still lag far behind the United States: Italy (12), Austria (15), Portugal (16), Germany (22), and Greece (24).

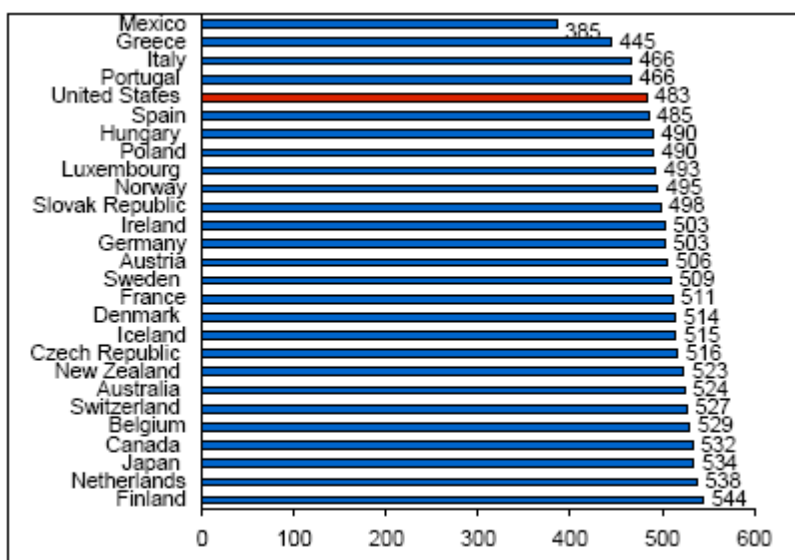
Attainment rates are only one way to measure the potential for educational outcomes to contribute to social exclusion. [Table 4](#) presents results tabulated by the OECD from an international standardized test of mathematics administered to 15-year-olds. In Western Europe, only Greece (445), Italy (466), and Portugal (466) scored, on average, lower than the United States (483) (see Figure 10). Switzerland (527), Belgium (529), the Netherlands (538), and Finland (544) did the best in Western Europe (see **Figure 3**).

⁶ Smeeding (2006) defines poverty as half of national median income and finds the pattern of poverty remains largely the same in the analysis by Scruggs and Allan (2005).

For purposes of social exclusion, however, we may be particularly interested in the scores of the poorest-performing students. The first column of Table 4, therefore, also shows the 10th percentile test scores in each country. In Western Europe, only Greece (324), Italy (342), and Portugal (352) scored lower than the United States (356). The best performers in Western Europe with respect to students at the 10th percentile were Ireland (393), Denmark (396), Iceland (396), Switzerland (396), Netherlands (415), and Finland (438). (For completeness, the last column in the table displays the results at the 90th percentile.)

[Table 5](#) demonstrates that the United States does poorly at both the mean and the 10th percentile⁷ despite spending substantially more on education at the primary (\$8,049 per student) and secondary (\$9,098) level than almost every other country in the OECD. Only Luxembourg spends more at both levels (\$10,611 for primary and \$15,195 for secondary), and Norway more at the secondary-school level (\$10,154). (The data in the next-to-last column demonstrate that at the tertiary level, the United States does spend substantially more per student per year (\$20,545) than all other European countries except Switzerland (\$23,714). These expenditures, of course, have no direct impact on test scores of 15-year-olds.) As [Table 6](#) makes clear, the vast majority of these expenditures at the primary and secondary level in the United States are in public schools (3.8 percentage points of U.S. GDP in 2002), not in private schools (only 0.3 percentage points of GDP in the same year).⁸

FIGURE 3. Mathematics performance among 15-year olds, 2003 (PISA mathematics scale scores)



Source : OECD

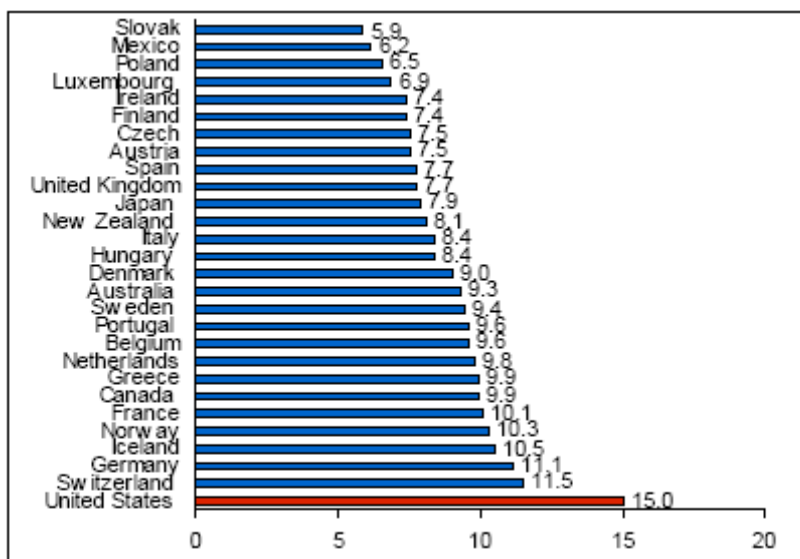
⁷ The relative performance of the United States is only marginally better at the 90th percentile, as Table 4 also shows.

⁸ In the United States, private educational expenditures are more important at the tertiary level, where the country spends about 1.2 percentage points of GDP on public higher education and 1.4 percentage points on private higher education.

Health

The United States spends much more on health care than any other country in our sample. [Table 7](#) lists total expenditures on health care in 2003, separately for the public and private sectors, based on calculations by the OECD. The first three columns express expenditures as a share of national GDP. The United States spent 15.0 percent of its GDP on health care in 2003 (see [Figure 4](#)). The next closest countries were Switzerland (11.5) and Germany (11.1); only three other countries spent more than ten percent (Iceland, 10.5; Norway, 10.3; and France, 10.1). Since U.S. GDP per capita is substantially higher than most of the countries in our sample, the gap between U.S. expenditures and those in other countries are even greater when we express health-care costs in terms of expenditures per person per year, which we do in the last three columns of the table. On average, the United States spends about \$5,635 on health care per person per year. Of the remaining countries, only four others spend more than \$3,000 per person per year: Norway (\$3,807), Switzerland (\$3,781), Luxembourg (\$3,705), and Canada (\$3,001).

FIGURE 4. Annual health-care expenditures, 2003 (percent of GDP)



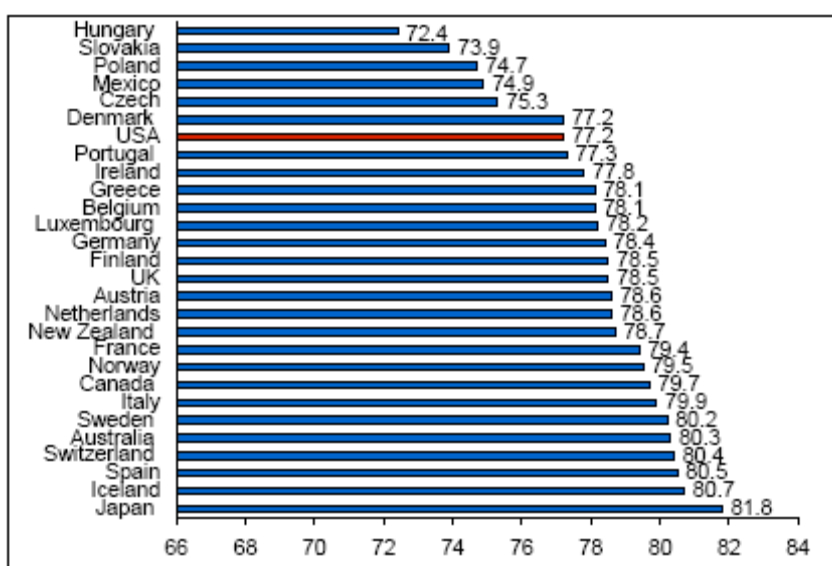
Source: OECD

Table 7 also breaks down health-care expenditures by whether they are in the public or private sector. The United States is the only country, except Mexico, in which expenditures in the private sector (8.3 percent of GDP) exceed those in the public sector (6.7). Greece and Switzerland are the only other countries where private-sector health expenditures exceed 40 percent of the total. Even though private expenditures represent the bulk of health expenditures in the United States, public-sector health costs in the United States still fall in about the middle of the range for public expenditures in Western European countries. Denmark (7.5), France (7.7), Sweden (8.0), Norway (8.6), and Germany (8.7) spend more in their public sectors, but Austria (5.1), Finland (5.7), Greece (5.1), Ireland (5.8), Italy (6.3), the Netherlands (6.1), Portugal (6.7), Spain (5.5), Switzerland (6.7), and the United Kingdom (6.4) all spend the same or less than the United States does.

The data in Table 7 establish that the United States spends considerably more on health care than other rich countries do, but other data suggest that the United States nevertheless suffers from high levels of social exclusion with respect to health care. The most obvious element of this exclusion is the high share of the U.S. population without health insurance. The United States and Mexico are the only countries in Table 7 that do not provide essentially universal health-care coverage. In 2003, 15.6 percent of the U.S. population (about 45 million people or roughly the population of Spain) was without any form of health insurance, public or private, throughout the entire year.⁹ An additional 12 percent of the U.S. population lacked health insurance for any part of the year.¹⁰

Data on many of the most common health indicators also suggest that the U.S. health-care system is highly inefficient, yielding poor outcomes despite high levels of expenditures. [Table 8](#) provides details on several broad measures of health outcomes compiled by the OECD. Only Mexico and the transition economies of Eastern Europe have a lower overall life expectancy than the United States (77.2 years, identical to Denmark, see

FIGURE 5. Life expectancy (years)



Source: OECD

column three of Table 8 and **Figure 5.**) On average, residents of Spain (80.5), Switzerland (80.4), and Sweden (80.2) – the three countries with the longest life expectancies in our sample – live three full years longer than residents of the United States. Among the major OECD economies, the United States also has the highest rate of infant mortality (7.0 per 1,000 live births, see column four). The next-highest rate in Western Europe is in the United Kingdom (5.3), while Norway (3.4), Finland (3.1), and Sweden (3.1) have rates that are less than half of those in the United States. The United States also fares poorly with respect to maternal mortality (see column five). At the turn of the century, the United States had 9.1 maternal deaths per 100,000 births, the fourth-highest rate in the table behind Mexico (70.7),

⁹ See Carmen DeNavas-Walt, Bernadette D. Proctor, and Robert J. Mills, "Income, Poverty, and Health Insurance Coverage in the United States: 2003," Washington, DC: U.S. Census Bureau (August 2004), p. 14.

¹⁰ The data refer to 2002, from Boushey (2004).

Denmark (11.1), and Luxembourg (10.9).¹¹ As with infant mortality, many Western European countries had maternal mortality rates that were less than half those in the United States: Ireland (3.1), Italy (3.1), Austria (3.6), Greece (3.9), Spain (4.2), Sweden (4.2), and Germany (4.3).

The United States also has a much higher share of its population that exceeds the medical standard of obesity (a body mass index, BMI, of 30 or greater). Just over 30 percent of adults in the United States are obese, compared to 23.0 percent in the United Kingdom, the Western European country with the highest rate of obesity; meanwhile, Switzerland (7.7), Norway (8.3), Italy (8.5), Austria (9.1), France (9.4), Denmark (9.5), and Sweden (9.7) all have obesity rates below ten percent.

Public-health campaigns against smoking, however, have apparently been much more successful in the United States than they have been in most of Europe. Only 17.5 percent of U.S. adults smoke cigarettes daily (see the last column of Table 8). In Western Europe, only Sweden (17.5) has a rate as low. Most of Western Europe has smoking rates around 25 percent, with rates above 30 percent in the Netherlands (32.0), Greece (35.0), and Austria (36.3).

The United States spends markedly more on health care (as a share of GDP or in dollars on a per person basis) than any other country in the world. Yet, more than 15 percent of its population typically finds itself without health coverage – private or public – throughout the entire length of any given year, with 27 percent lacking coverage at some point during the year. The additional U.S. expenditures on health care are also associated with substantially worse outcomes for basic health indicators including life expectancy, infant and maternal mortality, and obesity. The United States, however, has succeeded in lowering rates of adult smoking to the lowest level among the rich, industrialized countries.

Crime and Punishment

Another potential dimension of social exclusion is crime. [Table 9](#) summarizes some basic indicators of both the prevalence of criminal activity, as well as the associated incarceration rates. The most reliable crime data are for murders, since murders are generally reported and accurately recorded. The first column of the table gives the murder rate for our list of countries, based on data compiled by the UK Home Office. The United States, at 5.6 murders per 100,000 people, has by far the highest murder rate in the sample of countries in the table. Finland (2.9) is next, followed by Slovakia (2.6), the Czech Republic (2.5), and New Zealand (2.5). The U.S. murder rate is about five times higher than the rate in the safest Western European countries: Austria (1.2), Germany (1.2), Portugal (1.2), Spain (1.1), Sweden (1.1), Switzerland (1.1), and Denmark (1.0).

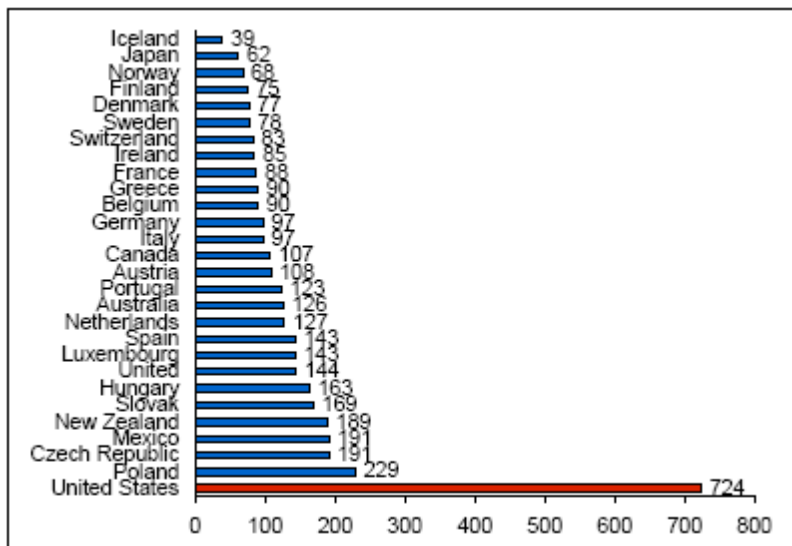
The United States does substantially better with respect to self-reported victimization rates, falling near but not at the top of the countries in Table 9. The second column of the table shows criminal victimization rates, expressed as reported offences per 100 people, from

¹¹ Since only a very small share of women die in childbirth, the data for maternal mortality, which are typically presented per 100,000 births, can vary substantially from year to year. As a result, Table 8 presents maternal mortality data averaged over the five most recent (available) years. For small countries with few births per year, even a small number of relatively bad years can have a relatively long-lasting impact on maternal mortality rates.

the 2000 International Crime Victims Survey.¹² In Western Europe, Switzerland (42.6 per 100 per year), Sweden (45.6), the Netherlands (48.1), and the United Kingdom (54.5) had higher victimization rates than the United States (39.5), while Denmark (35.1), France (33.9), Belgium (33.3), Austria (31.4), Finland (28.6), and Portugal (25.8) were all below the U.S. rate.

Given that the United States has high, but not the highest overall, victimization rates, all else constant, we might expect the United States to fall somewhere near the top, but not at the top of the sample of countries when it comes to the portion of its population that is incarcerated. The last two columns of Table 9, which report prison-population rates from the International Center for Prison Studies, demonstrate however, that the United States has a prison-population rate (724 per 100,000) that is five to ten times higher than rates in Western Europe, where incarceration rates range from 68 in Norway to 143 in Spain and Luxembourg and 144 in the United Kingdom. Most of Western Europe, in fact, has incarceration rates below 100, including Finland (75), Denmark (77), Sweden (78), Switzerland (83), Ireland (85),

FIGURE 6. Prison population rate (number of prisoners per 100,000 people)



Source: International Centre for Prison Studies (2006)

France (88), Belgium (90), Greece (90), Germany (97), and Italy (97) (see **Figure 6**).

The magnitude of the incarcerated population in the United States is sometimes difficult to comprehend. In 2004, U.S. prisons and jails held 2.1 million inmates, about 90 percent of whom were men.¹³ Given that the adult male workforce age 16 and older in the

¹² Total of ten crimes: car theft; theft from car; motor-cycle theft; bicycle theft; burglary; attempted burglary; robbery; personal thefts; and assaults or threats.

¹³ See, U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Statistics, Bulletin, "Prison and Jail Inmates at Midyear 2004," April 2005.

same year was about 78.7 million,¹⁴ this implies that a staggering 2.3 percent of the adult male population of the United States was in prison or jail in 2004.

Labor Market

Based on the evidence reviewed so far, the U.S. economic and social model appears to generate a considerable degree of social exclusion, with high levels of income inequality, high relative and even absolute poverty rates, poor and unequal educational outcomes, poor and unequal health outcomes, and high rates of crime and incarceration. The U.S. model maintains its appeal in the face of poor performance in these areas, however, because supporters believe that the United States offers two compensating advantages: a flexible economy that yields high employment rates, and high income mobility that, in principle, compensates for greater inequality.

As the first column of [Table 10](#) demonstrates, the U.S. experience with overall unemployment (5.6 percent in 2004) is good, and certainly far better than in Germany (9.9), France (9.6), and Spain (11.0). At the same time, several Western European countries, with decidedly less “flexible” labor markets in the usual sense of that term, had unemployment rates in 2004 that were the same or lower than the United States: Ireland (4.4), Switzerland (4.4), Norway (4.5), the Netherlands (4.7), the United Kingdom (4.7), Austria (5.3), and Denmark (5.3).

Despite the alleged superiority of U>S.-style flexibility, the United States does not do much better when it comes to unemployment rates for typically marginalized groups such as young people and those with less education, the kinds of groups most likely to benefit from greater wage flexibility, for example. The third column of Table 10 reports the unemployment rate for 15-to-24 year-olds. The rate in the United States (11.8 percent) is well below rates in France (21.3), Italy (23.5), and Spain (22.0), but above rates in Switzerland (7.7), Denmark (7.8), the Netherlands (8.0), Ireland (8.1), the United Kingdom (10.9), Austria (11.0), Germany (11.7), and Norway (11.7). (The unemployment rate, and even the employment rate, for youth does not necessarily paint an accurate picture of how well the labor-market is performing for young people, since many young people are probably best off in school. We will examine this issue below.) The fourth column shows a similar pattern for those with the equivalent of less-than-a-high-school education. The U.S. unemployment rate for this group (in 2002) was 9.9 percent, higher than the corresponding rates in Norway (3.9), Portugal (5.7), Sweden (6.1), Switzerland (6.1), Ireland (6.3), Greece (6.6), United Kingdom (6.9), Denmark (7.2), and Austria (7.9).

The unemployment rate, however, is not the only measure of labour-market performance. The next four columns of Table 10 give the employment-to-population rates for different demographic groups. Among 15-to-64 year olds, the United States does manage to incorporate more of the population into jobs (71.2 percent) than is the case in several major European economies, most notably France (62.8), Germany (65.5), Italy (57.4), and Spain (62.0) (see **Figure 7**). Nevertheless, many smaller, “less flexible” Western European economies have higher employment rates than the United States: the United Kingdom (72.7),

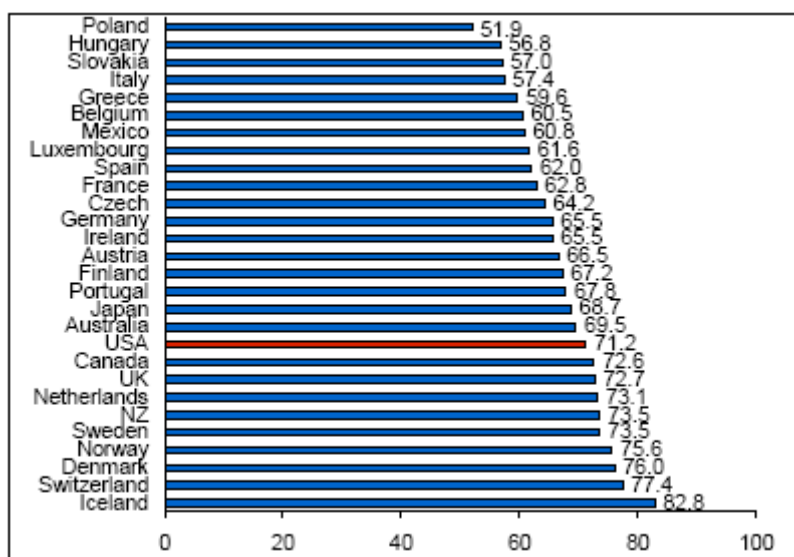
¹⁴ Bureau of Labor Statistics, Current Population Survey home page, <http://www.bls.gov/cps/home.htm>, customized tables, series LNS11000001Q, for second quarter 2004, which corresponds most closely to the mid-year 2004 prison and jail estimates.

the Netherlands (73.1), Sweden (73.5), Norway (75.6), Denmark (76.0), and Switzerland (77.4).¹⁵

The United States has done well in incorporating women into the paid labor force. But, the data in column six show that many Western European countries have also succeeded in this respect. In 2004, 65.4 percent of U.S. women ages 15-to-64 were employed. This was substantially higher than the corresponding rates in Italy (45.2), Spain (49.0), France (56.9), and Germany (59.9). The U.S. rates, however, are not as high as those in many European economies: Finland (65.5), the Netherlands (65.7), the United Kingdom (66.6), Switzerland (70.3), Sweden (71.8), Denmark (72.0), and Norway (72.7).

Employment rates for youth (column seven) repeat the now familiar pattern. The United States does better than the large, high-unemployment economies, but not as well as a host of smaller European economies. For youth, employment rates in the United States were 53.9 percent in 2004, well above the rates in Italy (27.2), France (29.5), Spain (38.4), and Germany (41.9), but not as high as rates in Norway (54.4), the United Kingdom (60.1), Denmark (61.3), Switzerland (62.0), and the Netherlands (66.2).

FIGURE 7. Employment-to-population rate (percent employed, all individuals ages 15-64)



Source: OECD

With respect to employment rates for the less-educated, the United States actually underperforms when compared with much of Western Europe. In 2003, 58 percent of the less-educated population in the United States was in work. This rate was near or below rates in Ireland (57), Spain (57), Finland (58), Greece (58), France (59), Denmark (61), Norway (62), Switzerland (66), Sweden (68), and Portugal (72).

¹⁵ Schmitt and Baker (2006) find that the declining coverage rate of the Current Population Survey (CPS) in recent decades may lead the CPS, which is the source of the U.S. unemployment and employment rate figures cited here, to overstate employment in the United States by about 1.4 percentage points, with the largest biases for more marginalized groups, especially young black men and young Hispanic women. To the extent that European surveys do not suffer from similar problems, the comparison here would overstate the U.S. performance relative to Europe.

Earlier, we mentioned that using the unemployment rate (and even the employment rate) to measure social exclusion among youth may be misleading. From a societal perspective, we may be just as concerned about whether young people are in school as we are about whether they are in work. The last three columns of Table 10, therefore, report OECD data for 2002 on the share of young people in each country that were neither in work nor in employment. The United States does not do particularly well among either 15-to-19 year olds or 20-to-24 year olds. For the younger group, only Hungary (8.0), the United Kingdom (8.6), Italy (10.5), and Finland (14.8 percent) had a higher share of young people out of both work and school (the U.S. rate was 7.5 percent). For the next-older age group, the United States (15.6) does better than some Western European economies – Germany (15.9), Belgium (17.4), Finland (18.8), Greece (22.0), and Italy (24.3) – but not as well as Denmark (7.3), the Netherlands (7.9), Norway (9.7), Switzerland (9.7), Ireland (10.8), Sweden (11.2), Austria (11.7), Portugal (12.0), France (14.4), Spain (15.1), and the United Kingdom (15.3).

The review of these data suggests that U.S. labor-market performance is generally – though not always – better than that of the four, large, high-unemployment European economies (France, Germany, Italy, and Spain). Nevertheless, the United States consistently underperforms relative to many of the smaller Western European economies whose labor markets are conventionally seen as much more rigid than those of the United States.

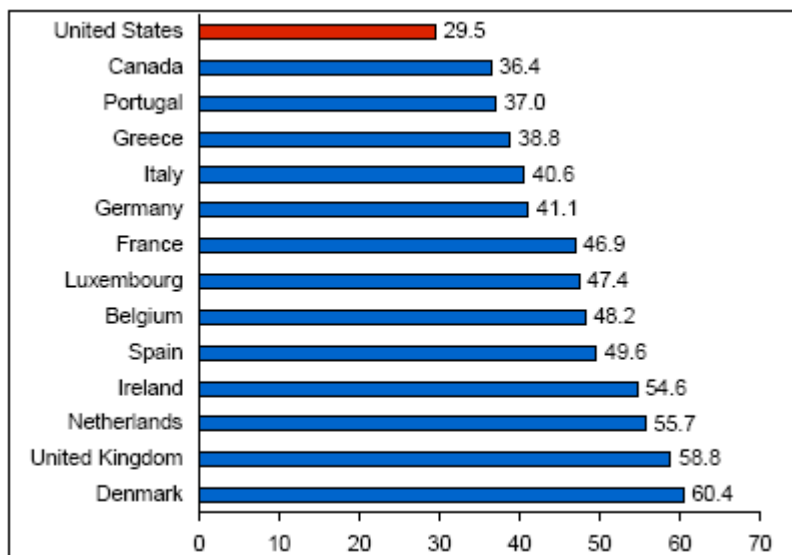
Economic Mobility

Advocates of the U.S. model also maintain that the country's economic dynamism produces a level of economic mobility that compensates for high levels of inequality and poverty. Economic and social distances may be much greater in the United States than they are in Europe, but, the argument goes, those at the bottom have a much greater chance to get ahead than they do in Europe. In this final section, we briefly review some international evidence on economic mobility both within and across generations.

[Table 11](#) and [Figure 8](#) present OECD data on short-term income mobility for a subsample of 14 countries. The table gives the share of low-income families (where low-income was defined as earning less than half of the national median income) that managed to escape from low-income status over a three-year period in the mid-1990s.¹⁶ Contrary to the view that the United States offers substantial mobility, the United States has the lowest share of low-income workers that exit their low-income status from one year to the next (29.5 percent). The corresponding rates in several European countries are greater than 50 percent: Ireland (54.6), the Netherlands (55.7), the United Kingdom (58.8), and Denmark (60.4).

¹⁶ The data for the United States refer to 1987-1989. The OECD notes that: "The time periods used to study poverty dynamics in the different countries are not fully comparable. The most important instance of non-comparable time periods is that poverty dynamics for the United States are studied for an earlier period ... than that studied for the other countries, due to data consistency problems in the American data for more recent years. Although the periods chosen are those for which business cycle conditions in the United States approximated those in the other countries studied, this difference means that the results do not reflect the impact on American poverty dynamics of recent reforms in welfare programmes and more generous in-work benefits (i.e. expansion of the Earned Income Tax Credit). On the other hand, the PSID data for income years after 1992 show greater poverty incidence and persistence in the United States, so that the use of these data would reinforce the comparative results for the United States. Exclusion of these data can be regarded as representing a somewhat conservative approach to the assessment of American poverty."

FIGURE 8. Income mobility, late 1980s-mid 1990s (percent of low-income families exiting low-income status each year)



Source: OECD

[Table 12](#) summarizes the results from three separate studies of longer-term intergenerational mobility across countries. In all three cases, the studies investigated the degree of correlation between fathers' and sons' incomes at different points in time. These intergenerational income coefficients quantify the economic advantage conferred by parents to their children: the higher the coefficient, the more likely that children born to poor parents are to remain poor later in life.

Panel (a) summarizes Blanden's (2004) findings for Canada, Germany, the United Kingdom, and the United States. Blanden found the lowest level of correlation between fathers' and sons' incomes – therefore, the highest degree of economic mobility-- in Germany (0.12), followed by Canada (0.18) and the United Kingdom (0.27). Intergenerational economic mobility was lowest, by a substantial margin, in the United States (0.45).

Panel (b) presents similar correlation coefficients from a review of international studies by Solon (1992).¹⁷ The 0.40 coefficient for the United States is Solon's estimated average based on research in the United States. According to these data, only South Africa (0.44) and, in one of two studies, the United Kingdom (0.57), had lower rates of mobility than the United States (0.40) did. Canada (0.23), Finland (0.13 and 0.22), Germany (0.11 and 0.34), and Sweden (0.13, 0.14, and 0.28) all appear to have substantially greater economic mobility across generations than the United States does.

Corak's (2004) review (see panel (c)) reaches similar conclusions. The United Kingdom (0.50) and the United States (0.47) have the least economic mobility. France (0.41), Germany (0.32), Sweden (0.27), Canada (0.19), Finland (0.18), Norway (0.17), and Denmark (0.15) all offer greater economic mobility than the United States.

¹⁷ Some countries have more than one study.

What appear to be small differences in intergenerational income coefficients actually imply substantial differences in economic mobility. Take, for example, the case of a family with earnings that are half of the national average. Other factors held constant, if a country has a correlation coefficient for parent-child earnings of 0.20, we would expect that descendants of the poor family would reach the average national earnings in less than two generations, or about 25 to 50 years.¹⁸ In countries with a coefficient of 0.45, a typical level in the estimates for the United States (and, in some cases, for the United Kingdom), however, descendants of the poor family would not, on average, close the income gap with the average family for more than three generations, or about 75 to 100 years.

Conclusion

The U.S. economic and social model is associated with substantial levels of social exclusion, including high levels of income inequality, high relative and absolute poverty rates, poor and unequal educational outcomes, poor health outcomes, and high rates of crime and incarceration.

At the same time, the available evidence provides little support for the view that U.S.-style labor-market flexibility dramatically improves labor-market outcomes. The U.S. labor market appears to fare consistently better than the four large, high-unemployment economies in Europe – France, Germany, Italy, and Spain – but the U.S. does no better and often noticeably worse than many smaller European economies that have labor markets that are highly regulated relative to the United States and even relative to the labor markets in the large, high-unemployment countries.

The data also appear to contradict the belief that greater economic mobility in the United States can somehow compensate for greater levels of inequality and "social exclusion." Despite popular prejudices to the contrary, the U.S. economy consistently affords a lower level of economic mobility, both in the short-term (from one year to the next) and in the longer-term (across generations), than all the continental European countries for which data are available. Given the high direct levels of social exclusion in the United States and especially the low levels of economic mobility across generations, the United States, therefore, stands as a poor model for a Europe seeking to combat social exclusion.

References

- Blanden, Jo. 2004. "International Evidence on Inter-generational Mobility," Centre for Economic Performance, unpublished paper.
- Boushey, Heather. 2004. "Analysis of the Upcoming Release of 2003 Data on Income, Poverty, and Health Insurance," Center for Economic and Policy Research Briefing Paper, (January).

¹⁸ Intergenerational mobility coefficients are determined by the regression: $\ln Y_{i,t} = \alpha + \beta \ln Y_{i,t-1} + \epsilon_{i,t}$, where generations are indexed by t . If $G = Y_{1,t} / Y_{2,t}$ and non-parental income influences are ignored ($\epsilon = 0$), the income gaps between two sets of parents, G_0 , and their respective children, G_1 , satisfy $G_1 = G_0^\beta$. Similarly, $G_n = G_0^{\beta^n}$, which implies that $n = \ln(\ln G_n / \ln G_0) / \ln \beta$. The calculations above assume $G_0 = 2$ (the 200 percent gap between the mean and half the mean), $G_n = 1.05$ (only a five percent gap), and a generation equals 25 years.

- Corak, Miles. 2004. "Do poor children become poor adults?" Statistics Canada, unpublished paper.
- DeNavas-Walt, Carmen, Bernadette D. Proctor, and Robert J. Mills. 2004. "Income, Poverty, and Health Insurance Coverage in the United States: 2003," Washington, DC: U.S. Census Bureau.
- International Centre for Prison Studies. 2006. "Entire World - Prison Population Rates per 100,000 of the national population," <http://www.prisonstudies.org/>, downloaded, May 2006.
- Gordon Barclay and Cynthia Tavares. 2001. "International comparisons of criminal justice statistics 2001," London: United Kingdom Home Office, Research Development and Statistics Directorate (October 24).
- Kesteren, J.N.van, P. Mayhew, and P. Nieuwbeerta. 2000. "Criminal Victimization in Seventeen Industrialised Countries: Key-findings from the 2000 international Crime Victims Survey," The Hague: Ministry of Justice.
- Mauer, Marc. 2003. "Comparative International Rates of Incarceration: An Examination of Causes and Trends," paper presented to the U.S. Commission on Civil Rights, Washington, DC: The Sentencing Project.
- Navarro, Vicente. 2002. *The Political Economy of Social Inequalities: Consequences for Health and Quality of Life*. Amityville, New York: Baywood Publishing Company.
- OECD. 2005. *Education at a Glance 2005*, Paris: OECD.
- Schmitt, John and Dean Baker. 2006. "Missing Inaction: Evidence of Undercounting of Non-Workers in the Current Population Survey (CPS)," Center for Economic and Policy Research Briefing Paper. Washington, DC: CEPR.
- Smeeding, Timothy M. 2004. "Public Policy and Economic Inequality: The United States in Comparative Perspective," Luxembourg Income Study Working Paper Series No. 367 (February).
- . 2006. "Poor People in Rich Nations: The United States in Comparative Perspective," *Journal of Economic Perspectives*, vol 20, no. 1 (Winter), pp. 69-90.
- Solon, Gary. 2002. "Cross-Country Differences in Intergenerational Earnings Mobility," *Journal of Economic Perspectives*, vol 16, no. 3 (Summer), pp. 59-66.
- Townsend, Peter. 1979. *Poverty in the United Kingdom*. Harmondsworth: Penguin.

SUGGESTED CITATION:

John Schmitt and Ben Zipperer, "Is the U.S. a Good Model for Reducing Social Exclusion in Europe?," *post-autistic economics review*, issue no. 40, 1 December 2006, article 1, pp. 2-17,
<http://www.paecon.net/PAERReview/issue40/SchmittZipper40.pdf>

Increasing Inequality in the United States

Dean Baker¹ [Center for Economic and Policy Research, USA]

© Copyright: Dean Baker 2006

A Sad Status Quo

The United States economy has grown at a reasonably healthy pace over the last quarter century, with GDP growth averaging 3.1 percent annually from 1980 to 2005. However, the benefits of this growth have gone overwhelmingly to the richest 10 percent of families, and among this group, disproportionately to the richest 1 percent. Most households have had very modest gains in income over this period, and the gains they did experience have been largely the result of the growth in two-earner households.

The growth of inequality in the United States is widely acknowledged in policy debates. While there is little dispute about the general pattern of rising inequality, there is considerable debate about the cause. While some policy analysts argue that rising inequality in the United States is an outgrowth of globalization and technology, a strong argument can be made that the driving force has been a series of deliberate policy choices. This article describes some of the key policies that have fostered an upward redistribution of income over the last quarter century.

US Trade and Immigration Policy – a Major Cause of Inequality?

Perhaps the most basic fact about globalization is that there is vast supply of workers in the developing world who are prepared to work at much lower wages than their counterparts in the developed countries. Trade policies that open up segments of the U.S. labor force to increased competition from workers in the developing world will lower the wages for the workers affected. At the same time, such trade openings will offer gains to the larger economy, since the goods and services produced by these workers consequently will fall in price.

In the United States, trade and immigration policy has been quite explicitly focused on placing less educated workers that do not have a college degree in competition with workers in the developing world, while leaving the most highly educated workers such as doctors, lawyers, accountants and economists largely protected. This has been done, first and foremost, by making it as easy as possible for companies to establish manufacturing operations in developing countries and ship their output back to the United States. Recent trade agreements have been focused on establishing an institutional structure that protects corporations against expropriations or restrictions on repatriating profits by developing country governments, while also prohibiting tariff and non-tariff barriers that could exclude manufactured goods from the United States. The effect of such agreements is to place U.S. manufacturing workers in direct competition with their counterparts in the developing world.

U.S. immigration policy has also placed downward pressure on the wages of less educated workers by allowing immigrant workers in many less-skilled jobs such as custodians, restaurant workers, and construction to work in the United States in violation of the law. Although it is illegal, over the last quarter century, employers have knowingly hired millions of immigrant workers, who lack legal authorization to work, for these jobs.

It is important to realize that the United States does not have an “open border” immigration policy. The relatively unskilled workers who work in violation of the law risk deportation any time they encounter a law enforcement officer – for example, if they are stopped for a traffic violation. Similarly, these workers often risk dangerous border crossing to get into the United States. Relatively unskilled workers in Mexico and other developing countries may be willing to take such risks because the wages offered at even low paying jobs in the United States are so much higher than what they could earn in their native country. Doctors, lawyers, and other professionals in developing countries would not take the same risks, even though they can earn much more in the United States, because they would be sacrificing a relatively comfortable existence in their home country.

If U.S. trade negotiators had a different agenda, they could have constructed trade agreements to place highly educated workers in the United States in competition with their counterparts in the developing world. This could have been accomplished by setting transparent professional and licensing requirements for medicine, law, and other highly paid professions and removing all the legal obstacles that make it difficult for hospitals, universities, and other employers to hire non-citizens. To eliminate concerns about a “brain drain” from developing countries, it would be a simple matter to impose a modest tax on the earnings of foreign-born professionals. This tax would reimburse developing countries for their educational expenses, and could allow them to educate two or three professionals for every one that came to the United States.

A policy that focused on subjecting highly paid professionals to international competition would have allowed for large economic gains in the form of lower prices for health care, college education, and many other goods and services in which the wages of highly paid professionals are a sizable portion of the total cost. This sort of trade and immigration policy also would lead to more equality, rather than inequality.

Anti-Inflation in Favor of Social Policies

A second important cause of rising inequality is the policy and strategy of the Federal Reserve Board, the central bank for the United States. The Federal Reserve Board, or Fed has the responsibility for both sustaining high levels of employment and keeping inflation under control, but in the last quarter century, it has focused much more on combating inflation than it had earlier in the post-war era. This policy relies on keeping unemployment high enough to prevent inflation from rising above the rates it views as acceptable.² When the Fed raises interest rates to slow the economy, the people who lose their jobs are disproportionately those at the middle and bottom of the wage distribution. A recent analysis found a strong link between low unemployment and real wage growth for workers in the bottom half of the wage distribution.³

In effect, this means that less-educated workers are being called upon to sacrifice by facing higher unemployment rates, and also earning lower wages, in order to keep the inflation rate under control. In prior decades, the government had tried to maintain some equality of sacrifice through wage-price guidelines. As the OECD has recently documented in its new Jobs Strategy, many European countries still effectively use centralized wage bargaining as a mechanism to control inflation without resorting to high levels of unemployment.

Anti-Unionism in the United States

A third important force placing downward pressure on the wages of large segments of the work force has been the anti-union policies that were put in place in the last quarter century. Partly as a result of these policies, the share of the private sector work force that is unionized fell from more than 20 percent in 1980 to less than 8 percent in 2005. Furthermore, the unions that continue to exist have far less power due to a change in tactics by employers.

In the eighties it became a common practice for employers to fire workers who are involved in union organizing drives. While it is illegal for an employer to fire a worker for their union activity, it is difficult to prove an employers' motivation. Furthermore, the penalties for being found guilty of violating this law are sufficiently trivial that employers risk these penalties in exchange for keeping a union out of their workplace. The ability of employers to fire the leaders of organizing drives has made it extremely difficult for unions to organize new workplaces.

Unions have tried to counter this practice by using outside pressure from various sources – churches, community groups, political figures – to force corporations to recognize unions where the majority of the workers want one. They have also tried to use the bargaining process in sectors of a company where they are organized to force management's neutrality in sectors that they are trying to organize. For example, the Communication Workers have used their bargaining in the traditional sector of the phone industry to force some of the major communications companies to be neutral toward organizing drives in their Internet and mobile phone divisions. However, the tilt toward management in the enforcement of labor laws over the last quarter century has been a major impediment to organizing.

The other major change in labor-management relations during this period has been the practice of hiring replacement workers to take the jobs of workers on strike. This was an extremely rare practice prior to 1980. The turning point came in 1981, when President Reagan brought in military air traffic controllers to replace the civilian air traffic controllers who were out on strike. Most of the striking controllers permanently lost their jobs. Shortly after this strike, there were several highly visible private sector labor disputes in which employers hired permanent replacements for striking workers. This practice made strikes a far less effective weapon against management. As a result, the ability of unions to secure wage gains for their members was further diminished.

The Costs of Health: Sky-High and ever Increasing

A fourth major area of public policy that has led to rising inequality has been the failure to contain the growth of health care costs. While rising health care costs have posed problems in all developed countries, no country has experienced a health care cost explosion comparable to that experienced in the United States. Health care costs rose from 8.8 percent of GDP in 1980 to 15.3 percent of GDP in 2005, in spite of the country's relatively young demographic structure. Health care costs are projected to rise by another 4 percentage points of GDP over the next decade.

Germany and other wealthy countries have been far more effective in keeping their costs under control. One reason that costs in the United States are so high is that it does not

have universal health coverage, but rather relies on private insurers to provide coverage for most of the non-elderly population. The insurers have proved largely ineffective in containing costs and incur enormous administrative expenses, with their administrative costs average of 20 percent of the benefits they pay out. Insurers are most profitable when they can find ways to avoid paying benefits to people who are sick and when they can avoid insuring sick people altogether.

Since per person health care costs are largely the same across income groups which means that health insurance costs the same for a high wage worker and a low wage worker, the rise in health care costs imposed a much larger burden on low and moderate wage earners than it did on high wage earners. If health care costs continue to rise as projected, increases in health care costs are likely to absorb whatever real wage gains that workers at the middle and bottom of the wage distribution are able to earn.

There are other policies that have played a role in the rise of inequality over the last quarter century. For workers near the bottom of the wage distribution, the decline in the real value of the minimum wage has been an especially important factor.⁴ The real value of the minimum wage was 30 percent lower in 2005 than it had been in 1980, even though average productivity had risen by more than 70 percent.

Together these policies have led to an economic structure in which the bulk of the gains from economic growth go to those at the top, and disproportionately to those at the very top of the income distribution. Until recently such policies could be justified by the relatively low unemployment rate in the United States, but even this rationale appears to be disappearing. The most recent data from the OECD show the employment to population ratio for prime age workers between 25 and 54 years of age in the EU-15 is almost identical to the ratio in the United States. And, the EU-15 has actually generated jobs at a more rapid pace than the United States since 2000.

Prospects for Change

While the leadership of both major political parties have gone along with many of the policies described above, it is clear that there will be more opportunity for change if the Democrats were to come back into power. In some areas the differences are quite clear. For example, the Democratic Party will be much more supportive of union organizing drives and will look for ways that the government can accommodate unionization efforts instead of actively trying to thwart them. The Democrats would also have more of a commitment toward extending health care coverage. While there is no consensus within the party on how this can best be accomplished, increasing coverage is accepted as an important goal for public policy. The Democratic Party is also committed to raising the minimum wage, which will provide a substantial benefit for those at the very bottom of the wage ladder.

Reversing the trend toward rising inequality over the last quarter century will not be done easily and quickly. However, removing the Republicans from power is likely to be an important first step in this process.

Notes

1. Dean Baker is the co-director of the Center for Economic and Policy Research in Washington, D.C. He is the author of *The History of the United States Since 1980*, New York: Cambridge University Press, forthcoming 2007.
2. The basic policy view that guides the Fed is the doctrine of the “non-accelerating rate inflation rate of unemployment” or NAIRU, which was first laid out in a number of articles by Robert Gordon (e.g. “Inflation, Flexible Exchange Rates, and the Natural Rate of Unemployment,” in M. Bailey, ed., *Workers, Jobs, and Inflation*, Washington, D.C.: the Brookings Institution).
3. Bernstein, J. and Baker, D., 2004. *The Benefits of Full Employment*, Washington, D.C.: Economic Policy Institute.
4. Hegewisch, A., “The Minimum-wage in the United States of America,” *Focus America*, Nr. 1, 2006: Friedrich Ebert Foundation.

SUGGESTED CITATION:

Dean Baker, “Increasing Inequality in the United States”, *post-autistic economics review*, issue no. 40, 1 December 2006, article 2, pp. 18-22, <http://www.paecon.net/PAEReview/issue40/Baker40.pdf>

Symposium on Reorienting Economics (Part VII)

This is the last of 10 papers in this journal's *Symposium on Reorienting Economics*, which has taken Tony Lawson's book *Reorienting Economics* as its focal point. These papers together with Lawson's replies to each (heretofore unpublished) will be published late in 2007 by the University of Michigan Press under the title ***Tony Lawson and His Critics***. The contents of this collection can be viewed at <http://www.paecon.net/PAEReview/LawsonandCritics.htm>

The Nature of Heterodox Economics

John B. Davis (University of Amsterdam and Marquette University, Netherlands and USA)

© Copyright: John B. Davis 2006

Tony Lawson's critique of mainstream economics is that it is everywhere formalistic and deductive, that this leads it to a closed systems approach based on identifying social event regularities, and that this is inappropriate strategy for dealing with the subject matter with which economics is concerned (Lawson, 1997, 2003). Heterodox economics is then distinguished by its rejection of all this and by its commitment to an ontological analysis that takes social reality to be intrinsically dynamic or processual, interconnected and organic, structured, exhibits emergence, and includes value and meaning and is polyvalent (Lawson, 2006, pp. 495-6). Broadly, I agree with these conclusions. My concern is that they may be truer of economics circa 1980, and neither fully capture the state of economics since then, nor provide us a sufficient understanding of the current direction of development of economics. I have previously argued that in the last two decades the economics research frontier has undergone significant transformation associated with the emergence of a collection of new research strategies, most of which criticize traditional neoclassical assumptions and originate in other sciences (Davis, 2006c; also cf. Colander, Holt, and Rosser, 2004). Here, however, my goal is to discuss heterodox economics, or more specifically, the changing nature of heterodox economics and its changing relation to orthodox economics. I will argue a view I believe is largely contrary to Lawson's, namely, that: (i) that heterodox economics is more heterogeneous than he and many others believe and moreover heterogeneous in ways generally not recognized by many who see themselves as heterodox, (ii) that the reference of the term 'heterodox economics' is quite different from what most economists, heterodox and orthodox, believe it to be, and (iii) that understanding this heterogeneity is important for understanding the direction of development of current economics.¹

(i) The heterogeneity of heterodox economics

Lawson and I agree that heterodox economics is a dynamic, changing phenomenon. He thus asks

whether there exists a (set of) trait(s) or causal condition(s), etc., that these [different heterodox approaches] hold in common For if there is a set of characteristics by virtue of which any tradition qualifies as heterodox ... it is presumably included among the features, if any, that the often very differently oriented traditions share (Lawson, 2006, p. 484).

¹ A fuller statement of many of the arguments here can be found in Davis (2006b).

I argued at the 2003 Kansas City ICAPE conference (Davis, 2006a) that what most people identify as heterodox economic approaches (excluding neo-Austrian economics and related research programs) shared three specific commitments circa 1980:

1. rejection of the atomistic individual conception in favor of a socially embedded individual conception
2. emphasis on time as an irreversible historical process
3. reasoning in terms of mutual influences between individuals and social structures

These three commitments also differentiate or draw the dividing line between orthodox or neoclassical economics and heterodox economics circa 1980. But neither this snapshot point-in-time contrast and identification of standard heterodox commitments, nor Lawson's focus on heterodoxy's shared commonalities, tells us very much about the dynamics of change in economics, particularly as concerns the changing relationship between what counts as orthodox and heterodox economics not just recently but also across the long history of economics. To understand these dynamics, I believe it is necessary to develop a more complex, structural analysis of heterodoxy and its relation to orthodoxy that, as in point (2) above, emphasizes the historical development of economics and changing nature of this division.² This structural analysis takes *research approaches* as its main units of investigation, and then examines four different ways in which both orthodox and heterodox research approaches *originate* as orthodox and heterodox respectively, and two ways in which heterodox approaches *orient* toward economics as a whole. This makes it possible to classify different research approaches as different types of dynamic phenomena that are distinguished according to their different *sources* and *directions* of development, and then go on to talk about the nature of economics as a whole in terms of how these different approaches interact. Here the analysis is applied to postwar economics, but the history of economics offers many other examples of episodes of transition regarding what counts as orthodox and heterodox that can be analyzed using this framework.³

Regarding how orthodox and heterodox approaches originate, the four cases set out here are formulated from the heterodox perspective in terms of how particular approaches *become* heterodox, though the framework also describes how other approaches become orthodox. In Davis and Sent (2006) these four cases are termed *origin stories*. Thus, heterodoxy arises because of:

1. Failure to become orthodox following a period of pluralism
2. Loss of the status of orthodox when a new orthodoxy emerges
3. Failure to redirect orthodoxy from outside orthodoxy
4. Failure to redirect orthodoxy from inside orthodoxy

I suggest that institutionalism might be taken as an example of (1), post Keynesianism is an example of (2), Marxism and radical political economy are examples of (3), and social economics and feminism are examples of (4).⁴ Orthodoxy's origin stories, in contrast, are

² In Davis (2006b) I argue that a division between orthodox and heterodox is characteristic of some fields – economics being one of them – but that others employ weaker divisions between standard and unconventional.

³ For example, two other important periods of transition are late nineteenth century British political economy and interwar US economics.

⁴ For further discussion, see Davis and Sent (2006).

stories of success rather than failure. Thus the reverse of case (1), becoming orthodox following a period of pluralism, might be taken to be the story of neoclassicism's origins in the contest with institutionalism during the period of interwar pluralism (cf. Morgan and Rutherford, 1998), case (2), the successful substitution of one orthodoxy for another, might take the rise of postwar formalist neoclassicism and rejection of prewar psychologism as an example, case (3), the successful redirection of orthodoxy from outside orthodoxy, might take the rise of game theory as an example, and case (4), the successful redirection of orthodoxy from inside orthodoxy, might take the ordinalist defeat of cardinalism as an example.

Whether the interpretation of these examples is correct, of course, is subject to debate by historians of economics. Nonetheless, the history of economics seems to tell us that there are different types of origin stories for different research approaches in economics, and thus that what most people take to be heterodox economics exhibits considerably more heterogeneity when seen from this dynamic perspective than appears to be the case when point-in-time comparisons between different approaches are made.

But my argument regarding the nature of the heterogeneity of heterodox economics also addresses different heterodox approaches' *orientation* toward economics as a whole. Using a simple structural distinction between orthodox and heterodox as one between core and periphery, I suggest that heterodox approaches orient either inward or outward, that is, toward the orthodox core of the field or away from it toward the periphery of the field, where we find the field's boundaries and points of contact with other sciences.⁵ Orientation toward the field's core is associated with challenging the core's own principles from the vantage point of those *same* principles. An example might be feminists' efforts in the 1980s to introduce the sexual division of labor into Gary Becker's models of the household. Orientation towards the field's periphery is a matter of placing emphasis on principles closer to other sciences beyond the field's boundaries, principles moreover which appear at any given point in time to be clearly not part of the field's core. An example might be post Keynesianism with its emphasis on uncertainty and path-dependency. Again, the examples may be debated, so that the emphasis here rests rather on differentiating heterodox approaches according to their main orientations (allowing that any approach involves a combination of inward and outward orientations).

Heterodox economics is heterogeneous, then, because different approaches differ in the ways that they combine different origin stories and different orientations. Their origin stories and orientations, that is, distinguish their different dynamics, and accordingly serve to place their point-in-time shared commitments in historical context as temporary and transient states of affairs. This is not to say that the shared commitments of different heterodox economics approaches and differences with orthodoxy circa 1980 are insignificant. But it does suggest that they may not identify the ways in which critique and change in economics influence the relationship between what counts as orthodox and heterodox, since on the analysis here shared commitments do not drive work within the different heterodox approaches. Indeed the implication of this treatment of heterodoxy is that often temporary structural alignments between different heterodox approaches associated with perhaps accidental shared pathways are the more likely source of change in the relationship between orthodoxy and heterodoxy. How, then, does this all apply to economics post-1980?

⁵ Heterodox approaches can also change their orientation over time. I also assume orthodoxy only orients toward the core of the field, and does its best to ignore if not suppress heterodoxy (see Davis, 2006b).

(ii) Heterodox economics post-1980

I take 1980 or thereabouts to be significant for economics in that a number of new research programs began in various ways to be recognized in the mainstream. These include game theory, behavioral economics, experimental economics, evolutionary economics, neuroeconomics, and complexity economics. Other new approaches and combinations of these have emerged in their wake. With the possible exception of game theory, however, none of these new approaches has yet come to be regarded as orthodox. Orthodoxy typically requires moving from being purely a research program to being a well-established teaching program, where changes in teaching work their way from top downward through the social hierarchy of universities and top programs. Neoclassicism, of course, still dominates economics teaching (though this dominance has become more uneven as courses in experimental economics and non-linear simulation techniques are added to more and more department curricula).

But if these new research programs in economics are not orthodox, what are they? I have argued (Davis, forthcoming) that these new research programs taken as a group – though not individually – accept in varying degrees all three of the commitments of heterodox economics listed above. As these three commitments in my view and that of many others also constitute the dividing line between orthodoxy and heterodoxy circa 1980, these new research programs taken as a group must thus be by definition heterodox. Of course, this conclusion is not one that those who traditionally regard themselves as heterodox are in many cases inclined to accept. I believe there are two grounds for this, one that is reasonable and one that I think is not.

The reasonable grounds concern the nature of the attachment that the new research programs exhibit to the three principles of heterodoxy. Though they appear as a group to accept all three principles, no single program, it is can be argued, ought to be regarded as heterodox unless it accepts all three.⁶ This is a fair response if the standards of heterodox economics circa 1980 are to be thought good for all time. But if we accept that what counts as orthodox and heterodox is historically changing, then, as reasonable as this response may seem to many today, it seems we should also be open to the reconstitution of what counts as heterodox. Indeed, *prima facie* the new research programs in economics are heterodox in virtue of their origins *outside* of economics in other sciences. It would be a mistake, I think, to claim that the understanding of science in other fields is essentially same as it is in economics, since why otherwise are there different sciences? Thus the emergence of the new research programs in economics presumably imports new science principles into economics. Examples include behavioral and neuroscience foundations for choice, graph-based network analysis, experimental techniques, and non-linear, non-equilibrium simulation methods. Identifying these developments as heterodox is not to say, of course, that they represent those heterodox principles most valued by those individuals who currently self-identify themselves as heterodox. Nor is it to say that these are all necessarily valuable principles for economics. The main point, as emphasized in Davis (2006c), is that what has come into economics from other sciences cannot be orthodox, at least at the outset.

The argument, on the other hand, I believe to be unreasonable for questioning the status of the new research programs as heterodox is a sociological one. Individuals in the new research programs seem to have two social characteristics. First, they frequently occupy

⁶ In fact some versions of complexity economics can be argued to accept all three principles.

stronger professional locations than those traditionally known as heterodox. Second, they do not consistently hold left-of-center political orientations, as do those traditionally known as heterodox (excepting neo-Austrians). Thus the inference is that they must be mainstream rather than heterodox. While as a traditional heterodox economist, I am sympathetic to both of these complaints vis-à-vis the mainstream, it seems to me that they confuse concerns with openness in the profession and progressive politics with what is involved in characterizing the difference between orthodoxy and heterodoxy in the subject matter of economics. No doubt the two issues are not completely separate, but nonetheless they also do not clearly line up when we are trying to understand the dynamics of economics as a field. The effect, moreover, of thinking sociological factors define heterodoxy is to continually reinforce the idea that there is but one single and unchanging definition of heterodoxy – circa 1980. Such a conviction in my view not only misses the dynamic relationship between heterodoxy and economics. It may also be argued to be anti-pluralist if it underlies an unwillingness to consider what else might not be orthodox in economics, if not traditionally heterodox.

What is the significance of these conclusions, then, for thinking about heterodoxy and the future development of economics?

(iii) Contingencies in the future of economics

The argument of the previous section is that heterodox economics post-1980 is a complex structure, being composed out of two broadly different kinds of heterodox work, each internally differentiated with a number of research programs having different historical origins and orientations: the traditional left heterodoxy familiar to most and the ‘new heterodoxy’ resulting from other science imports. This complex structure, perhaps not surprisingly, is one in which there is relatively little cross-communication *across* the two types of heterodoxy, whereas there is considerable cross-communication across research programs *within* each of these two heterodoxies. I think there are a number of reasons for this, one being – and one not to be underestimated – the social effects of the opprobrium cast upon heterodoxy *per se* in fields with strong orthodox-heterodox divides, where economics is one of the worst offenders.⁷ At the same time, it is still odd on the surface that there is little cross-communication between these two broad groupings, since both share a number of critiques of mainstream neoclassicism, and accordingly I want to suggest a reason for this lack of broader communication in terms of the origins and orientations analysis above, which has implications for prospective heterodox strategies vis-à-vis orthodoxy.

On the origins side, all of the new research programs in economics – the ‘new heterodoxy’ – exhibit origin story (3); that is, as research programs *inside* economics drawing on principles originally developed *outside* economics, they are all still unsuccessful attempts to redirect economics orthodoxy from outside orthodoxy. On the orientations side, all of these new research programs in economics display an inward orientation; that is, they largely aim to change the principles reigning in orthodoxy, and do not aim to substitute new ones altogether (ironic though this may seem with their outside economics origins).⁸

By comparison, it seems to me that perhaps the only traditional heterodox research program that shares this particular combined origin and orientation is neo-Ricardian

⁷ Though much the same can be said of the system of social exclusion practiced in political science.

⁸ This point requires more argument than can be given here, and essentially involves a case-by-case examination of the new research programs.

economics. Ricardian thinking has been heterodox and in the periphery of economics since marginalism supplanted classical economics. It only became an actual heterodox movement, however, after the failed attempt to redirect orthodoxy associated with the Cambridge capital controversies inspired by Sraffa's work. Also, neo-Ricardianism retains an inward orientation in that its conceptual elaboration is aimed at redeveloping and revising the framework and categories of general equilibrium theory, which are part of the orthodox core.

Of the remaining traditional heterodox research programs, the few that share periphery origin stories are all oriented toward the periphery of economics. Traditional forms of Marxism plus newer approaches such as the Re-thinking Marxism school of course want to see change in economics, but they are not interested in engagement with orthodoxy, addressing it only in critique to set off entirely different frameworks that favor closer connections with what goes on outside of the boundaries of economics. Other traditional heterodox approaches that have different origin stories are all also outward-oriented. It is not revision and adjustment of the core that drives them, but its wholesale abandonment. Feminism may be an exception, since with many of its representatives having had neoclassical beginnings – thus origin story (4) – revision and adjustment of the core is still entertained by some, though this seems to have become a minority and declining position.⁹

Thus the state of affairs in economics as a whole is that orthodoxy has come into question – here I agree with Lawson – but that the two heterodox groupings both interested in changing the field have almost entirely different views about how this should happen, and accordingly have little to say to each other. Which is the correct scenario then? Most of traditional heterodoxy has clearly bet on a big scientific revolution; the new heterodoxy is rather intent on chipping away at the core on a gradualist schedule. Either scenario could be correct, but I imagine that if even most traditional heterodox economists had to make a prediction about the nature of possible future change, they would be skeptical about there being a revolution within any future they can foresee.

If this is true, then traditional heterodox economists have two choices. They can maintain their outward-orientation, so that if change occurs in economics it will likely be on the terms determined by behavioral economists, experimentalists, and others in the new approaches. The risk here is that these movements may become more conservative as their success at influencing the core improves. Alternatively they can reverse their orientation, and turn to trying to shift what exists in the core, looking for allies in the 'new heterodoxy' along the way, so as to improve the chances of successful change for both.^{10 11}

Lawson's view of heterodoxy, in my view, does not allow this choice to emerge. As a point-in-time, shared characteristics conception, it misses the heterogeneity and dynamics of heterodoxy, both traditional and new. Moreover, by asserting, "there is a set of characteristics

⁹ Part of the ambiguity here concerns many feminists' attachment to Sen's capabilities framework, which was an inward-oriented strategy outside the core at the outset – and a case (4) heterodox origin story – but may be evolving toward an outward oriented one.

¹⁰ There are heterodox economists who have come to this conclusion, for example, followers of SABE (Society for the Advancement of Behavioral Economics), which has links to traditional social economics, and a number of proponents of evolutionary economics, which has links to institutional economics.

¹¹ My own research strategy, accordingly, has been to take a principal core concern – individualism – and seek to push it from atomism to social embeddedness or a relational conception, thus an inward orientation aimed at changing the core, rather than to argue for holism, an outward orientation aimed at introducing a new principle into the core. I should add that my own personal taste is for a more outward orientation and greater dialogue with other fields, and that I identify with traditional heterodoxy for this reason. But as a matter of practical strategy I recommend an inward orientation.

by virtue of which any tradition qualifies as heterodox” (Lawson, 2006, p. 484), and by associating these shared characteristics with the rejection of the core of economics, he counsels an outward orientation. And with the recommendation of an outward orientation, he bets on the unlikely big scientific revolution, so that, should traditional heterodox economists in any great number accept his advice, the chances of gradual change in economics being more conservative are increased.

Note that if change does occur in economics in a gradual way, this does not rule out that it ends up being far-reaching. One way to see this is to take further stock of the nature of the new research programs. Thus if one characterizes the new research programs in economics as primarily synchronic (behavioral, experimental, game theory, etc.) or diachronic (evolutionary, complexity, etc.) in nature, the possible differential success of these programs in any process of change in economics paints out two basic kinds of redevelopment pathways for the future, one more conservative and one more transformative. The reason for this has to do with the differential attachment of the new research programs to the three commitments above that draw the dividing line between orthodox and heterodox economics circa 1980. Basically, diachronic programs go deeper in the changes they seek to bring to the core by including principles (2) and (3), whereas the more synchronic programs principally aim at principle (1). The moral in all this, then, seems to be that the alliances between traditional heterodoxy and ‘new heterodoxy’ likely to have the greatest impact on economics lie along the axis of principles (2) and (3). In my view, however, success in changing orthodoxy along these lines also implies change in principle (1), though success in changing orthodoxy solely in terms of principle (1) may well leave the other principles unchanged, and would probably imply a very modest departure from the atomistic individual conception.

I conclude with a brief comment about ICAPE, the International Confederation of Associations for Pluralism in Economics. Though most traditional heterodox economists know what the acronym means, it is not clear what they take pluralism to mean. For many it seems to mean an open stance toward the different heterodox research programs associated with ICAPE that seeks to promote a unity within difference. This stance seems to me to be shortsighted and anti-pluralist in important respects. But I agree with Lawson that the vitality of traditional heterodox economics “is alive and flourishing” (Lawson, 2006, p. 483). And just as new ‘traditional’ heterodox research programs have emerged since 1980 (for example, feminism, the Re-thinking Marxism school, new evolutionary currents, SABE, and others), it seems we should expect this dynamic process to continue in the future, hopefully to increasingly make ICAPE an increasingly pluralist organization in strategy as well as membership.

References

Colander, D., Holt, R., and Rosser, J. (2004) “Introduction,” in Colander, Holt, and Rosser, eds., *The Changing Face of Economics*, Ann Arbor: University of Michigan Press.

Davis, J. (2006a) “Heterodox economics, the fragmentation of the mainstream, and embedded individual analysis.” In R. Garnett and J. Harvey, eds., *Future Directions in Heterodox Economics*, Ann Arbor: University of Michigan Press.

Davis, J. (2006b) “The Turn in and Return of Orthodoxy in Recent Economics,” paper presented at the annual History of Economics Society meetings, Grinnell, Iowa, USA.

Davis, J. (2006c) "The Turn in Economics: Neoclassical Dominance to Mainstream Pluralism?" *Journal of Institutional Economics*, Vol. 2, no. 1: pp. 1-20.

Davis, J. (forthcoming) "Competing Conceptions of the Individual in Recent Economics," *Oxford Handbook of Philosophy and Economics*, eds. H. Kincaid and D. Ross, Oxford: Oxford University Press.

Davis, J. and Sent, E-M. (2006) "Heterodoxy's Strategic Pluralism," paper presented at the annual European History of Economics Society meetings, Porto, Portugal.

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

Lawson, T. (2003) *Reorienting Economics*, London: Routledge.

Lawson, T. (2006) "The nature of heterodox economics," *Cambridge Journal of Economics* 30: 483-505.

Morgan, M. and Rutherford, M. (eds.) (1998) *From Interwar Pluralism to Postwar Neoclassicism*, Durham: Duke University Press.

SUGGESTED CITATION:

John Davis, "The Nature of Heterodox Economics ", *post-autistic economics review*, issue no. 40, 1 December 2006, article 3, pp.23-30, <http://www.paecon.net/PAEReview/issue40/Davis40.pdf>

Beyond talking the talk: towards a critical pluralist practice

Alan Freeman and Andrew Kliman (University of Greenwich, UK and Pace University, USA)

© Copyright: Alan Freeman and Andrew Kliman 2006

Critical pluralism – an introduction

This paper argues that pluralism in economics requires formal rules of conduct to guarantee pluralism in research. These should provide for transparent and professional standards for research, presentation and editorial judgement.

The guiding principle of this reform is what we term critical pluralism. There are two key ideas in this. The first is that truth, or progress towards it, arises only if empirical reality is tested against a multiplicity of theoretical explanations of that reality. Pluralism is thus not a normative or ethically desirable adjunct to science but a necessary prerequisite to producing valid knowledge. Critical pluralism would, therefore, impose on the researcher the obligation to

- (1) engage with, and critically examine, explanations alternative to her own;
- (2) clearly state the alternative presuppositions which differentiate her own explanation of observed reality from the alternatives considered;
- (3) clearly identify the evidence in support of her own conclusion
- (4) clearly identify the evidence that supports the researcher's interpretation of the alternative views against which she tests her conclusions, in order to provide for a fair test.

This proposal differs substantially from prevailing informal standards. In our view, these informal standards exercise a suppressive function. Nevertheless, in our experience, when most economists, whether heterodox or orthodox, come to realise what we are really proposing, their initial reaction is usually hostile. This is at first sight surprising, particularly since heterodox views suffer the most from the suppressive effects of the current procedures extant in economics. It is doubly surprising given that the kind of measures we propose – for example, the right of reply, the right of appeal, safeguards against misrepresentation – are generally regarded in society as reasonable guarantees of objectivity and justice.

This hostility conveys, we think, something about the profession of economics. It tells us that the problem does not simply lie with orthodoxy, and will not be overcome by the mere existence of heterodoxy. It requires a different model of pluralism, something different from the present informal conception which consists, we believe, of an 'evolutionary struggle between competing orthodoxies' in which the practices which produce a suppressive orthodoxy are merely reproduced among its rivals. In essence, we argue that heterodox economists have made the mistake of reducing pluralism to diversity. This is the principal factor which perpetuates the continued dominance of orthodoxy.

The foundation of this system is what we term 'monothoretic practice', by which we mean that each individual school of thought, no matter how heterodox and different from the mainstream, conceives of its role in economic debate as the working out of a single explanation within a single paradigm, attempting to demonstrate its superiority against both existing orthodoxy and alternative heterodoxies. In the 'market for economic theory', a successful product is not conceived of as an economist who engages with other ideas, but a theory which defeats them.

We relate this to the cult of the economic expert, which conceives that the primary function of the economist is to determine, on behalf of others, the correct policy for these others to follow. The duty of an economist lies elsewhere, we believe, than merely judging which ideas are correct. It lies in showing where the ideas come from, and exhibiting the evidence in support of or against them, in order that others may themselves judge what is correct. Economic research, from this standpoint, should consist of a concerted battle to lay bare and make transparent the presuppositions on the basis of which economic judgements are made.

This battle is required not only so that economists themselves may be freed up to pursue truth; it is required so that non-economists can regain access to, and control over, what the economists are doing. We think the current practices of economics are rooted in its constitution as a distinct discipline; the separation of economics from social science as a whole has allowed it to be converted into a pseudo-science hermetically sealed against external standards of judgement.

We believe that economics is for this reason incapable of self-reform. Our reform programme is therefore not primarily addressed to economists but to the consumers of their product. Those economists who seek the reform of their discipline need to appeal outside their profession, to remove the freedom from external accountability to which economics alone among the sciences lays claim. When a bridge falls down through bad design, the engineer is held to account. When a patient dies under medical treatment, society is rightly entitled to question the competence of the doctor. Yet when a country collapses whilst implementing an economic recommendation, it is the people and not the advisors who are blamed. Our proposed reforms are intended to correct this by imposing on the economists a long-overdue responsibility for the consequences of their own actions.

It may be thought that such a programme is normative and ethical, rather than positive or scientific. We will argue that, on the contrary, without formal guarantees of pluralism and critical method, economics does not function as a science. Our guiding principle is to identify those practices which society must impose on its economists, should it require these economists to provide them with scientifically valid information.

Monotheoretic heterodoxy – an inadequate informal norm

As evidence of the approach we believe necessary, we refer the reader to the scholarship guidelines reproduced at the end of the Appendix to this article. The scholarship guidelines were arrived at during ten successive miniconferences of the International Working Group on Value Theory, which took place at the Eastern Economic Association's annual spring conferences in the USA each year from 1994 to 2004. We refer the reader also to the mission statement and editorial guidelines for *Critique of Political Economy* (<<http://copejournal.org>>), a new forthcoming theoretical journal.

These documents do not claim to be a complete programme of reform: they are a work in progress which we want to share with others interested in participating in a radical reconstruction of economic practice.

On the IWGVT website, we also present for discussion, and as evidence, "Beyond Talking the Talk: Background Materials" (<www.iwgv.org/beyond-talking-background>),

which details some of the concrete experiences which have led us to conclude that such a reform is necessary.

Our own field of enquiry is value theory and Marx's critique of political economy. It may therefore be thought that our experiences and conclusions relate only to a narrow specialism – the value theory of Karl Marx – and that our paper is therefore a discussion internal to Marxian economics. We believe to the contrary that the experiences we have had relate to economics as a whole. The problem we wish to address is the way that heterodox schools of thought themselves deal with difference and with a plurality of views. If we ask any economist, for example, whether Keynesianism as a whole, or Marxism as a whole, behave any differently from orthodox economists towards differences in their own ranks, then if that economist is honest she would have to conclude that her own 'camp' behaves no differently than the currently dominant view.

For instance, 'Keynesianism' actually constitutes a multiplicity of 'Keynesianisms', including dominant and suppressed views of Keynes. But the practitioners of the dominant view of Keynes behave, in relation to 'heterodox' views, with an intolerance equal to if not greater than the intolerance of neoliberalism towards Keynesianism of any variety.

We believe that this experience is quite general in economics. The perceived integrity of the 'schools' does not exist, and this extends well into the mainstream. Thus if one examines more closely the general approach which is now labelled 'marginalism' and which is itself generally identified with orthodoxy, one finds that this school has in fact marginalised the first marginalists, in that the Austrian approach, which emphatically rejects general equilibrium, contained in its ranks the founding fathers of marginalism, not least Menger himself. It is not unfair to suggest that resistance to pluralism is general throughout economics, quite regardless of whether it is orthodox or heterodox.

Thus there is a paradox which cannot be addressed merely by taking issue with orthodoxy: heterodoxies are just as lacking in pluralistic practice as the orthodoxies against which they set themselves. The general intolerance of economics towards difference and pluralism is, alarmingly, *universal*: it is not confined to 'the bad guys'.

The conclusion we draw is that heterodox economics is the victim of a false model of pluralism; it conceives of it as a struggle of 'school against school' – Keynes *versus* Marx *versus* Sraffa *versus* neoclassical theory. It thus sees itself as engaged in a battle with orthodoxy to ensure that each 'school' is fairly represented. For instance, the principles of ICAPE,¹ an organisation which has made a signal and important contribution to the cause of pluralism in economics, begin with the words:

ICAPE is dedicated to the idea that pluralism and intellectual progress are complements. This is not to say "anything goes," but that each tradition of thought (Austrian, feminist, old and new institutionalist, Marxian, neoclassical, Post Keynesian, Sraffian, etc.) adds something unique and valuable to economic scholarship.

Of course, the exclusion of any 'school' is an obstacle to progress. But the difficulty does not stop, or indeed even start, at this point. The schools *themselves* are among the greatest enemies of pluralism. It is precisely within each individual school that we find the

¹ ICAPE stands for The International Confederation of Associations for Pluralism in Economics.

mechanisms through which difference is suppressed, in order to establish what is 'true' Marxism, what is 'true' Keynesianism, Institutionalism, and so on.

This model of pluralism is, in the first place, wrong in its tacit assumption that each particular school represents a single view, rather than a multiplicity of views. The false camaraderie of the Marxists is a classic example. The major obstacle to expressing a different reading of Marx is the perception that, since Marxists are an endangered and beleaguered species, the expression of difference among Marxists is a dangerous practice, a threat to the existence of all. The irony is that it becomes possible to contend that the suppression of Marx's work is an act of illegitimate censorship (rather than, as is claimed, the reasonable rejection of an inconsistent system) only by repudiating the interpretation of his value theory that dominates Marxian economics, in favour of an alternative interpretation that eliminates Marx's supposed internal inconsistencies (see the Appendix to this paper). This irony only reflects the wider problem: heterodoxy cannot be limited to a battle to substitute one received truth for another. It requires instead a different way of striving to arrive at truth.

However a deeper error is, in our view, involved. Our point is not to argue that economics is even more diverse than the pluralists have recognised, or to multiply indefinitely the number of different viewpoints which economics needs to take into account. Our point would still be valid even if there were only two different views in the whole of economics, because it concerns the way in which the proponents of divergent views deal with each other's ideas. If there were only two schools in economics, they would still be acting in the most profoundly unscientific way if each saw its job as simply to develop its own viewpoint without engaging with the other.

In our view, as already mentioned, the fault in economics lies in the entire notion that the job of the economist is to judge, on behalf of the consumers of economics, what is a correct theory. We sustain that the function of economic research is, on the contrary, to lay bare the concealed assumptions behind all theories so that the consumers of our output may for themselves judge between them.

The prevailing informal norm is rooted in a reductionist syllogism: since, the heterodox researcher reasons, there is only one truth, there is therefore no need to examine many theories. All we must do is find the 'one true theory' and then apply it. From this standpoint, which is in fact shared by many heterodox economists, the only thing wrong with orthodoxy is that it has not found the truth. Therefore, the only necessary step to reform economics is to substitute the correct, heterodox single truth for the false, orthodox single truth.

This is the fundamental justification for the general practice in most heterodox economics itself, which by and large conducts itself as a multiplicity of orthodoxies. It perceives economic debate as a clash of a great variety of different views – each of which, however, is the property of a single school, the subject of a single article, the object of a single research programme, or the lifework of a single researcher.

Monotheoretic practice and the cult of the economic expert

Behind the prevailing informal norm just described, there lies an almost universal view of what an economics researcher 'does' which becomes clear only when we examine the practice of the heterodox. Essentially, economics 'research' is held to consist of applying

one particular theory or idea to the study of some aspect of empirical reality. In consequence, the recipients of economic advice are told to adopt a policy because it is scientifically or technically correct. They are rarely told that it is one particular view, or given the option to adopt different policies. Far less are they permitted to require of the policy advisor that she offer a range of alternative options based on a range of alternative theories.

All heterodox economists recognise this as monotheoretical practice to a greater or lesser degree precisely because they are heterodox; that is, they can see that orthodoxy contains mistakes. In general, however, they do not translate their insight into the errors of others into a reflection on their own practice.

In orthodox or mainstream economics, monotheoretical practice is concealed because researchers do not need to put a name to the theory they are using. An economist at the International Monetary Fund is not required to say, when telling a country what to do, that this is the neoliberal view of what the country should do. She, or more usually he, just says 'this is what economics tells us you should do'. Nevertheless such judgements contain a concealed and unstated bias, since by the word 'economics' the researcher or advisor actually means one particular theory – the current dominant paradigm.

Heterodox economists cannot so conceal their bias, so at least their product is labelled. Although this is an improvement, it is not sufficient. In order to say that one differs from the mainstream, and in order to make common cause for a different theory and a different policy, one has to put a name and a description to what one proposes. One has to call it 'New Keynesianism' or 'Evolutionary economics' or 'National Systems theory'. This is in and of itself, unobjectionable. However, each such school then proceeds to conduct itself as an orthodoxy-in-waiting, concentrating its work on the one hand on acquiring the necessary homogeneity to compete in the marketplace of ideas, and on the other hand in supplanting or replacing its rivals as the fount of truth. Monotheoretic practice, therefore, does not *simply* arise from the existence of orthodoxy; and cannot simply be eliminated by replacing it with heterodoxy: its roots lie in the way that all economists, including heterodox ones, organise their relations to each other.

Moreover, the notion that the function of economic research is to apply and develop a single theory is utterly rooted in the way that it is organised. A struggling heterodox PhD student, or grant applicant, has enough trouble mastering one author or body of theory. Surely it is an impossible burden to demand that the researcher should be conversant with and consider not only this theory but its critics and alternatives? How many times, at heterodox conferences, have we heard a presenter, when asked why she or he considered no alternative approach, simply state that she had no time, was not interested in it, or would 'leave the other approaches to those who were involved in them'?

Material roots: the practice of economic research

It is at this point where one begins to realise why opposition to a consistent pluralism is so deep-rooted. It arises, in our view, from a combination of two factors: the material circumstances of its practitioners, and the ideological bias imposed by the clients and patrons of economic analysis and theory. The combined effect of these two factors is that economics, as a whole and notwithstanding isolated achievements, does not function as a science

In this section we consider the first factor. The fact of the matter is that genuine pluralism is actually very difficult. To take the most basic point, it requires a 'genuinely pluralist' economist to be actively acquainted not just with a single viewpoint but also with the entire range of theory which could have a bearing on whatever she or he wishes to study. A core element of the IWGVT guidelines states that presenters have to engage with, and study, as an integral part of the way they explain one particular theory, the views of its critics and the possible alternatives to it.

Faced with this demand, a substantial body of participants in our miniconferences simply gave up and went back to doing what they had always done. Pluralism is a lot of work. If it were imposed as an editorial criterion, we make a rough estimate that around 90 per cent of currently published articles would be rejected on these grounds alone – never mind what would happen to research grants.

A system of rewards and sanctions which insisted on pluralism, as a criterion for funding, promotion and publication, would impose a very different structure on economic knowledge. But the evolutionary success factor for an economist is not to engage with the work of others, but either to work within the dominant paradigm or to differentiate herself from others, to construct an 'original body of work' which 'no-one else is doing'. Indeed, in either case, it is in the *interest* of an economist to reduce the attention given to the theory and work of others, precisely in order to promote and sell her own particular product, her own particular theory.²

Thus to be a consistent pluralist is a daunting research option. It involves twice or three times as much work. It reminds one of Ginger Rogers' famous statement that 'I did everything Fred did, but backwards and in high heels'. The necessity of such practice is in fact revealed by the very different practice of business economists, who have to advise people with large amounts of money to spend as to their best course of action. In fact, the very best working economists, and the very best economic units *do* recognise the necessity of a multitheoretical approach, *do* triangulate from evidence, *do* examine a variety of explanations for what they hope to explain or predict.³ It is a perfectly possible thing to do. But it is hard work and it is time-consuming, and as a consequence it is not seen outside of the closed world of the business decision-makers.⁴ Above all in research, in publication, and in those areas of the practice of political economy where vested class and political interests are most openly at stake – notably giving advice to countries and governments – pluralism is virtually absent.

But it goes further: pluralism is not merely difficult but career-threatening. Not least, the pursuit of many different theories, even those relating to the same practical problem, is often regarded as time wasting. At any time, a particular dominant theory is always in vogue;

² Our claim that the anti-pluralistic practices of economists are rooted in material interests is broadly consonant with Martin's (1998) 'interests model' of the suppression of dissent in science generally. His analysis is informed by a quarter-century of study and firsthand knowledge; see his 'Suppression of Dissent' website, <http://www.uow.edu.au/arts/sts/bmartin/dissent/>. Kliman (2006, Chap. 12) draws on Martin's model to account for the suppression of Marx's critique of political economy by Marxist and Sraffian economists.

³ This is the general practice (but not the universal practice, as the spectacular failure of the Long-Term Capital Management hedge fund shows) of the best financial economists, particularly when, instead of advising governments, they find themselves and their advice accountable to employers that spend money.

⁴ This is one reason why, it has to be said, some of the most interesting and practical economics comes out of business schools. Of course an enormous amount of nonsense comes out of business schools, too, but this may be a price worth paying.

the alternatives are perceived as not only irrelevant but, more often than not, eccentric or downright suspect.

Thus, from the very start of a researcher's career, profound material conditions impel her or him at every step to a narrow theoretical specialisation. Monotheoretical research practice is an intrinsic organisational factor in what is considered 'good' in economics.

To realise how deeply ingrained is this attitude of thought one need only consider some of the more common arguments offered against pluralism. How many times have we heard that a presenter is 'too busy' to consider the ideas of her critics? Or that a journal rejects a submission because 'this journal does not publish this kind of material – it should be published somewhere else'? This 'natural' framework of thought informs us that the most efficient use of research time is to engage in narrow specialisation to the exclusion of all alternatives, and that the legitimate purpose of publication is to promote one particular set of views, consistent with the particular theoretical prejudices of the editorial board and its reviewers. Pluralism will be taken care of, it is argued, by an analogue of the competitive, liberal-market model: each school is free to publish its own material, present its own work, in its own conferences, its own schools and in its own journals.

But this is precisely to render economics a kind of microcosm of the liberal market. Schools of thought are thrown into a discreetly savage competition with each other: they compete for publication, for space at conferences, to control journals, for research grants, to win institutions, indeed to capture the ears of entire governments. At every stage the 'judges' are practicing monotheorists, deaf to difference, resulting in a battle of organised clans of partisans masquerading as disinterested schools of thought.

In consequence, judgements about what is bad or good are made on a basis which drives the judges towards subjectivism. What rational person will promote or fund a researcher whose interest lies in defeating her ideas? Journal articles and research proposals are submitted for consideration to the 'peers' of the author concerned, where 'peers' means 'other researchers that adopt the same label'. What advantage can any referee secure from consenting to the publication of an article which threatens to undermine her own research specialism?

Recognising these material pressures, a genuine pluralism would insist on controls. It would submit any article to a range of referees both within and without the specialism of the author. Among those referees, it would include those who share not only the author's 'label' but also the particular paradigm within which that author works. It would expect the referees to judge the merit of the article not on the basis of whether or not they agree with its content or endorse its approach, but on the basis of whether the article complies with the norms commonly accepted among communities of scholars: are the conclusions provided are substantiated with evidence that supports them? Are alternatives considered? Is the logic consistent in its own terms?

And if the referees failed in their duty to adhere to these standards of objectivity, genuine pluralism would provide an overriding accountability – just as do courts of justice – in the shape of formal appeal procedures in which it is legitimate to examine whether the referee has or has not done her or his job.

The very fact that this kind of pluralistic practice is considered 'too difficult' constitutes a verdict on what the profession of economics regards as good practice. To be sure, consistent pluralism would make good economics very hard to do. This is not, unfortunately, an excuse. It is hard to be a good doctor, but society does not accept this as a justification for unleashing quacks to practice on the sick. It is hard to be a good chemist but we do not let alchemists wander at large, poisoning people and blowing things up. It is hard to be a good astronomer but we do not hand over command of space flights to the writers of Sunday horoscopes. Society demands standards of its professionals because it wants them to do their job, and it has every right to do so.

Bad economists are arguably a more serious social danger than bad chemists, engineers or doctors. They damage not only individuals, but entire countries and populations. It simply isn't a good enough excuse to say that it is too difficult to do it right. At the very least, if this approach is going to be adopted, the public is entitled to a few health warnings.

Ideological roots: the myth of the evolutionary selection of ideas

We turn now to the central argument of this paper, which is that critical pluralistic practice is not merely a normative question, a matter of 'tightening up' sloppy practices. The existing practices are in fact integral to a system of organisation of economics which leads it to function not as a science, but as a theology.

It is for this reason that, we must insist, what is at stake is not personal injury or rights, but the actual content of the output of economics.

As explained above, we argue that the 'traditional' organisation of the economics profession, the routine common-sense practices it considers 'normal and acceptable' when judging whether to publish an article, accept a job application, promote a researcher, fund a project, or grant a PhD, are – when taken in their totality – a systematic instrument for suppressing a plurality of views and imposing conformity.

This much is widely recognised. We doubt there is a single heterodox economist who does not have some experience of the suppressive mode of functioning of economics. However, we want to go further. Until now, the standard reaction in heterodox economics has been, in our view, to 'play the game' – that is, to challenge the *output* of orthodox economics but not to challenge its *practices*. Pluralism, from the standpoint of this reaction, is then a luxury – something to aspire to or to lament the lack of – but not something to be implemented. Pluralism is to economics what MSG is to Chinese cooking. It is generally held to improve the taste, everyone wants it when it's on offer, but it is probably injurious to health, and the true master chef has no need of it.

Our central thesis is that pluralism is not the condiment but the main course. *Because economics is not pluralist, it is not scientific.* Thus at stake is not just whether economics is 'nasty' or treats people badly, but whether its content is correct. The organisation of economics, we have argued, constitutes an unconscious reproduction of the model of the liberal market. Each school sets out its stall, marshals its supporters, and competes for fame and fortune, and may the best school win.

Indeed this model is celebrated. It is held to embody liberal virtue, since anyone has the right to speak; market principles, since the ideas must compete for attention; and to select for truth, since on Darwinian principles the fittest, and therefore the best, must surely emerge. But there is no guarantee that an evolutionary struggle will produce a superior outcome by any other criterion than survival. Economics itself furnishes a counterexample: the competition of currencies which, as we know from Gresham, is an evolutionary system in which Bad drives out Good.

The notion that the 'competition of schools' must, through some evolutionary process, lead to the selection of scientifically superior ideas, contains a great error. It is assumed that the 'fittest' economic theory must necessarily be the most truthful. But the evolution of ideas in economics selects not for truth, but for political acceptance, above all by those classes in society who fund it.

The empirical evidence is strong. Throughout the history of economics, employers, financiers and other privileged classes have constantly weighed in on the side of those economic ideas which offer a rational justification for their own particular privileges, over those which offer a general explanation for all the workings of a capitalist economy. Theories which explain that differences in wealth between wage workers and property-owners are the natural state of the world, that high wages are incompatible with growth, that unemployment arises from the choices of the unemployed, or that neoliberal precepts are the surest guarantee of economic welfare, begin with an evolutionary advantage which is transparently obvious from the ideas to be found at the top of the profession and in its elite institutions.

Are the results nevertheless in some sense 'true?' This hypothesis is supported by scant evidence. In the words of Paul Ormerod (1994):

Economists from the International Monetary Fund and the World Bank preach salvation through the market to the Third World ... Yet economic forecasts are the subject of open derision. Throughout the Western world, their accuracy is appalling. Within the past twelve months alone, as this book is being written, forecasters have failed to predict the Japanese recession, the strength of the American recovery, the depth of the collapse in the German economy, and the turmoil in the European ERM.

One has only to consult, for example, the IMF's own external audit on its role in Argentina, to realise that even within economics itself, the most serious doubts prevail, at least in private, about the accuracy of its predictions:

The International Monetary Fund's handling of the crisis in Argentina three years ago almost certainly deepened a recession that threw millions of Argentines into poverty and sparked political chaos throughout the country, according to a report released yesterday by the IMF's internal audit unit. By overlooking Argentina's growing indebtedness in the 1990s and continuing to lend the country money when its debt burden had become unsustainable, the fund significantly contributed to one of the most devastating financial crises in history, the report concluded. The crisis peaked when the Argentine government defaulted on nearly \$100 billion in debt to private creditors and had to abandon the "convertibility" system that pegged the peso to the dollar at a one-to-one rate. The ensuing crash led to an 11 percent decline in Argentine output in 2002, sent the jobless rate soaring and toppled a series of presidents in a country that

the IMF had once hailed as a model of free-market reform and development. “ (Blustein 2004).

Nor can it be seriously maintained that the basis for such doubt is limited to particular episodes or problems, as if only minor corrections or improvements were necessary to correct fundamental errors which lie behind the mistakes that economists habitually make. There are very general phenomena, such as the persistence of famine in the midst of plenty, or the long-term growth of international inequality, which economics *repeatedly* fails to explain.

Empirically, it is incorrect to hold that truth necessarily emerges from the evolutionary competition of ideas. Ideas can evolve backwards as well as forwards. The simple Darwinian analogy does not hold.⁵

The evidence of economics’ own output is thus sufficient to cast serious doubt on the prejudice that the liberal market in economic ideas selects for truth.

There are also sound theoretical reasons for believing that these empirical failures are not at all accidental. A careful study, which is beyond the scope of this paper,⁶ of the actual outcome of major paradigm struggles in economics shows that its selection process is functional. It acts to prevent the emergence of modes and topics of enquiry, of theoretical frameworks or paradigms, which, to put it crudely, risk representing material interests as they truly are.

Even without a detailed historiography of economic thinking, we can appreciate the specificity of economics by contrasting its output with that of other many social sciences. Historical or sociological enquirers, including historians of economic thought itself, are given at least some training in identifying the material interests behind the various theoretical ideas which compete for our attention. They identify the losers and gainers from the policies arising from such ideas, and seek to bring to light the classes of society that, owing to the benefits they will receive, have acted to secure the acceptance of these ideas and policies.

Identification of the interests at stake is an uncomfortable outcome for these classes because it makes clear the subjective basis on which such ideas have been promoted. This is why economics has become the social science of preference. In contrast to history, sociology, etc., its specific ideological function – in a certain perverted sense, its great ideological achievement – is to disguise the material origin of theories and to present the unequal benefits arising from policies based upon them as natural economic necessity. It is therefore not at all surprising that the inventors of theories which achieve this outcome should find themselves rewarded with endorsement, employment, promotion, publication and indeed, acclaim.

On both empirical and theoretical grounds, there are compelling reasons to believe that the selection procedure of economics is unsound. It is for this reason that we argue that, without pluralism, economics cannot be considered scientific.

⁵ How many economists follow the precept which Darwin himself writes into his autobiography, which Freud (1938:102) uses to illustrate his principle of the ‘pain motive for forgetting’: “I had during many years followed a golden rule, namely, that whenever a published fact, a new observation or thought, came across me which was opposed to my general results, to make a memorandum of it without fail and at once; for I had found by experience that such facts and thoughts were far more apt to escape from the memory than favourable ones”? Is it then surprising that economics conveniently ‘forgets’ almost every theory, however factually well-supported, which might call into question its deepest-rooted prejudices?

⁶ See Freeman (2007)

Can economics reform itself?

Is the output of economics inevitable? Can a pluralistic practice yield better outcomes, a superior selection process? The answer is 'yes but...' It is possible that the outcome and the process can be improved. But economics will not reform itself. Even more specifically, no movement of economists alone, however well intentioned, can achieve reform. Reform, we believe, requires conscious organisation because scientific practice requires a continuous battle with the anti-pluralistic tendencies of the profession and discipline of economics, tendencies that, given its social role and function, come naturally to it.

To explain why, we focus on some essential differences between the natural and the social sciences. In the natural sciences, the conception of evolutionary selection through the competition of schools probably works, most of the time and with some (rather important) exceptions. By a crude and uncritical analogy, economists assume that what works for natural scientists must also work for them.

As we have already indicated, it is erroneous in any case to assume that an evolutionary law will always work to improve. It is particularly erroneous to suppose that an evolutionary process will work in the same way for the natural sciences as it does for the social sciences and above all for economics. The outcome of an evolutionary selection process depends on the criterion and process of selection. Evolution in a predator-prey habitat produces ferocious wolves and fleet deer, but animal husbandry produces tame dogs and bucolic cows. The two selection processes produce different outcomes because they use a different mechanism and apply different criteria. This happens in turn because their objectives and functions are not the same.

The criterion of success for a natural science theory is empirical. It is that of *prediction*. Although it is true that the selection process of the natural sciences is, as Kuhn has noted, tortuous and meandering, nevertheless this process ultimately rejects those theories whose predictions persistently fail to conform to a sufficiently widely observed reality.

This is probably not due to the exemplary intentions of the natural scientists. It arises from the social function of science in a capitalist economy. Left to their own devices, it is perfectly possible that natural scientists would conduct themselves little differently from the economists and indeed, in earlier periods of history, there is strong evidence that they did so.

However, a capitalist economy, in which successful competition of capitals demands the successful implementation of technology, imposes a powerful objective constraint, independent of whether the scientists behave like conscientious Popperians or Kuhn's prejudiced 'normal scientists'. Scientific theories are desired by capitalist society because they give rise to products and processes, and these are required to work. This severely limits the selection of bad ideas: theories which lead to bridges or buildings falling down, or aeroplanes falling from the skies, have a limited shelf life.

The triumph of the modern natural sciences was the outcome of a political struggle of the rising urban capitalist class against the aristocracy. Once the new capitalist class had separated the direct producers from the land, it needed to unite them with factories and technology, and so needed to acquire dominion over nature in order to organise production. It

was not in the interests of any but the landed classes that sound theories, which would lead to ever-expanding increases in productivity, should be rejected simply because they were incompatible with aristocratic privilege. The capitalist class therefore looked with great favour on, and indeed participated directly in creating,⁷ a selection process for natural scientific enquiry, on the basis of enlightenment principles of abstract reason, to secure the greatest opportunity for themselves to reap the technological benefits. The selection processes of the natural sciences are thus driven by the overriding compulsion to accumulate through technical advance, imposing on it a distinctive competitive pluralism. Faced with a theory with difficult religious implications that makes more profit, capital generally chooses it regardless of theological niceties.

In short, the selection process in the natural sciences is, possibly against the will of the natural scientists, *intrinsically pluralistic*. What we mean by this is that the sciences are organised in such a way that, in the course of their quest to explain natural phenomena, observed reality is tested against *a wide range of possible theoretical explanations* of that reality. In particular, empirically successful theories are not excluded *a priori*, as in economics, on allegedly methodological grounds. In short, potentially successful theories are not as a matter of course excluded from empirical testing on ideological grounds.⁸

Because of its different social functions, this is not the case with economics. As we have noted, the crucial social function of economics is to offer a theoretical basis for the policies which classes and politicians seek to implement, in which the subjective interests of those who will benefit from the policies are concealed, and the subjective intentions of those who promote the policies are purged, and in which both are disguised as objective social necessity.

Because of this difference in social function, the selection criterion for economic ideas differs from the selection criterion in the natural sciences. The selection criterion in economics is certainly not success in prediction; almost all practicing economists agree on the unreliability of their own forecasts. The profession is instead dominated by *methodological* criteria of selection.

When economic theories are disqualified, this is rarely done on empirical grounds. Instead, the ostensible criterion of selection in economics is 'logic'. The first recourse of an economist seeking to promote her own theory, or attack that of a rival, is that her theory is 'logically coherent' but the rival's is not.

The first problem with this practice is that, while logical coherence is necessary for truth, it is not sufficient. A theory can be completely consistent but false. Most religions have an extremely logical and consistent structure, but this does not lead to the selection of predictively accurate religions. Secondly, and more importantly, economists commonly disqualify competitor theories as 'logically inconsistent' even when the latter conform to all axioms of Aristotelian or formal logic. What they mean by 'logically inconsistent' is that *their own* theoretical premises are incompatible with the conclusions of the competitor theory. In other words, the competitor theory is disqualified on purely *methodological* grounds. This is so especially when it excludes or refutes a premise that the economist holds to be self-evident.

⁷ See for example Uglow (2002).

⁸ The more a particular branch of science impinges on our internal explanation of society, and the farther its field of enquiry is from the study of a purely external nature, the more it is threatened by criteria derived from ideology, as can be seen from the progress of controversies in biology.

In particular, as a hundred years of economic debate have shown, any theory which leads to the conclusion that capitalism's economic crises are endogenous and endemic – rather than the result of imperfect markets, imperfect information, exogenous shocks, and the like – provokes the most violent existential angst among those whose lives and careers are organised around the principle that this is impossible.

To take an extreme but exceedingly influential example, Reder (1982), himself a member of the University of Chicago economics department, noted that:

Chicago economists tend strongly to appraise their own research and that of others by a standard which requires (*inter alia*) that the findings of empirical research be consistent with the implications of standard price theory. ... [They shun] alteration of the theory to accommodate behavior inconsistent with [it] ... [In the Chicago Ph.D. program, students'] answers must conform to definite criteria which are the fundamental characteristics of [the Chicago School], e.g.: competitive markets must clear, decision makers must optimize, money illusion must be absent. However imaginative, answers that violate any maintained hypothesis of the paradigm, are penalized as evincing failure to absorb training. ... An acceptable dissertation ... [provides] an explanation of some empirical phenomenon "Explanation" means either a demonstration that the phenomenon is compatible with the underlying theory, or the provision of such extensions of the theory as may be required. [Reder 1982, p. 13, pp. 19-20]

Proponents of rival paradigms also try to enforce such practices, albeit perhaps with somewhat less rigour. This methodological monism ensures that a dominant and successful theoretical paradigm can, and will, suppress and eliminate its rivals without the embarrassing requirement, imposed on the natural sciences, of testing the ideas of these rivals against reality. Moreover, on the rare occasions when an empirically superior theory does overcome an orthodoxy which has excluded it, closer examination generally reveals that this is not the outcome of the internal processes of economics, but the intervention of external political forces for whom the prevailing orthodoxy has become so completely dysfunctional that it no longer serves any useful purpose.

Examples of this in economics are legion. The extraordinary inappropriateness of 'official' opinion regarding Argentina's hard currency peg is only the most extreme example of the practical impact of neoliberal policies whose triumph is widely recognised to owe much more to political expediency than to empirical accuracy.

Keynes' own battle, against the empirical background of the greatest slump in history, simply to secure acceptance for the theoretical possibility of an 'unemployment equilibrium', was won only through the ascendancy of interventionist political currents in the face of the social chaos provoked by this same slump.

A further instructive example is the course of the postwar debate on minimum wage legislation and the theory of the labour market. As Manning (2003:5-6) points out, early founders paid careful attention to the fact that the relation between employer and wage-earner is one-sided or 'monopsonistic' – the employer functions as sole purchaser and is therefore able to set wages.

Nevertheless, the subsequent evolution of labour market theory firmly established, over a period of some 50 years, the prejudice of perfect competition in the labour market – notwithstanding such empirically absurd predictions as that a one-cent cut in the wage will lead all existing workers to quit:

The claim that labor markets are, in the absence, of outside intervention, pervasively monopsonistic, probably comes as something of a surprise to readers of labor economics textbooks. Table 1.1 documents the number of pages devoted to a discussion of monopsony and the total length in a selection of popular textbooks. As can be seen, monopsony does not figure prominently and, where it is mentioned, the discussion is generally not favourable....The first two volumes of the *Handbook of Labour Economics* (Ashenfelter and Layard, 1986) contain only two references to monopsony out of a total of 1268 pages...the three subsequent volumes published in 1999 (Ashenfelter and Card) contain three references in 2362 pages. (Manning 2004:6)

This prejudice is only now being subjected to serious empirical scrutiny, at precisely the time when a growing army of casualised and poverty-stricken labourers has become a sufficient social threat for policy-makers to recognise the pragmatic necessity to provide some minimum protection. In contradiction to the standard predictions of perfect competition, the UK Low Pay Unit (2005:vi) concluded that:

The National Minimum Wage was introduced on 1 April 1999, with an adult rate of £3.60. Its introduction benefited about one million low-paid workers and had no measurable adverse effects on employment or inflation... From 1999–2002 the minimum wage was increased roughly in line with average earnings, reaching £4.20 in October 2002. These increases also had no significant adverse effects and indeed employment continued to grow strongly in the sectors where low pay is most prevalent

... the Commission, in its fourth report published in March 2003, concluded that it was appropriate to increase the effective level of the minimum wage, increasing it faster than average earnings for a number of years, and thus benefiting more workers. In line with our recommendations, the adult minimum wage rose to £4.85 in October 2004, an increase of 15.5 per cent over two years in which average earnings increased by nearly 8 per cent. We also indicated in our fourth report that we believed that some further increase above average earnings would likely be required in subsequent years to arrive at an appropriate long-term level. This report analyses the impact of the significant upratings over the last two years and considers the appropriate path of the minimum wage over the next two. Our analysis suggests that the upratings have largely been absorbed without adverse effects. Employment continues to grow in most low-paying sectors and the impact on wage bills and profitability appears sustainable.

The workings of the evolutionary process are perhaps clearest of all in the economic profession's treatment of the ideas of Marx, which it systematically suppresses, and virtually never considers. This has nothing to do with the accuracy of Marx's predictions, many of which are widely conceded (though generally in private) to be rather good.⁹ Marx and other

⁹ See for example Cassidy(1997) "Many of the contradictions that [Marx] saw in Victorian capitalism and that were subsequently addressed by reformist governments have begun reappearing in new guises, like mutant viruses.... He wrote riveting passages about globalisation, inequality, political corruption, monopolization, technical progress, the

Marxist theorists have contributed predictions about long-term trends in the world economy that have stood the test of time somewhat better than most neoclassical theory. The persistence of business cycles and the existence of imperialism are both now recognised modern features of the twenty-first century world, but both were decreed, at one point or another, to be antiquated dogmatic fictions by the most eminent writers of the second half of the twentieth century.

Instead, Marx's ideas are ignored and suppressed because of their socially unacceptable conclusions, above all the conclusion that capitalism contains within itself contradictions which it cannot solve. Of course, this is rarely if ever acknowledged openly. The conventional justification for economists' suppression of Marx's work is rather that it is supposedly riven with logical inconsistencies. However, as we discuss in the Appendix, the 'logical' inconsistencies reduce to the fact that Marx's theoretical conclusions cannot be deduced from the models of his critics. Here again, the selection criterion is wholly methodological – but in this case it is wielded principally not by members of the Chicago School, but by Marx's Sraffian and Marxist critics.

Thus, theories which are perfectly internally consistent, and whose empirical predictions are as good as or better than the alternatives, will not be considered because, from the standpoint of rival theories, they appear illogical and, therefore, not worthy of consideration. This has two vital consequences. First of all, it provides no mechanism for selection against falsehood since, as we have noted, a system can be as perfectly wrong as it is perfectly logical. Second, it contains no mechanism for selecting for truth, since economics fails to conduct the most important operation which distinguishes the natural sciences: it does not test observed reality against the full range of theoretical alternatives available to explain that observation. Third, to the extent that objective external constraints influence the selection mechanism, they operate only to secure theoretical support for policy conclusions which are invariably reflect – and disguise – the partisan interest of particular, and generally privileged, classes.

Why will this not be challenged from within the profession? Because economists reap no benefit from testing rival ideas whose conclusions challenge their own beliefs and theories. Worse still, economics has successfully secured itself against the criticism of other disciplines. To the other social sciences it explains that it is unique in being a 'hard' science and can be judged only by the standards of the natural sciences. It is thereby hermetically sealed off from external audit or critique.

Because of this special status economics is 'naturally anti-pluralistic', operating according to informal rules of conduct in practice accepted uncritically by the generality of economists whether orthodox or heterodox. These unwritten rules, the 'accepted common-sense norms' of economics, are driven by a social process of selection and merely formalise this social process. They contain, therefore, no guarantee of truth.

The crucial issue does not concern the minor decisions which economists make when studying this or that practical question – what will happen to interest rates, whether inflation will be worse or better in the next year, how many people will be employed in this or that sector, and so on. The crucial issue instead has to do with the major judgements about the principal types of theory and the principal methodologies which economists will use, in the

decline of high culture, and the enervating nature of modern existence – issues that economists are now confronting anew, sometimes without realizing that they are walking in Marx's footsteps."

course of making their countless minor decisions. Once a truthful theory has been ‘deselected’ by its proponents being denied publication, grants, resources of all kinds, it is no longer accessible to practitioners. It is precisely for this reason that the suppressive function of existing economic practice is its most consistently anti-scientific instrument; it is precisely for this reason that this suppressive function is the key thing to challenge; and it is precisely for this reason that only a consistent pluralism can actually be scientific.

The foregoing analysis lays the basis upon which, we believe, all alternatives to the present system should seek to organise.

First and foremost, it has to be recognised that the success of the natural sciences arises precisely from testing a multiplicity of theories. Economics should be no exception. Pluralism is thus not a luxury but a *sine qua non* of progress in economics. Second, this will not be achieved by setting economist against economist and school against school. It requires cross-paradigmatic engagement as the prime commitment of theoretical activity, as well as a system of practices, rewards and sanctions that promote such engagement.

The prime task of an economist, in confronting a variety of theories, is neither to ignore nor defeat rival theories by means of arguments based on ‘logic’ alone, but to bring about an *understanding* of these theories and their implications, to make both the material origin of these ideas and their practical consequences available, for empirical verification by external agencies. Until now, theoretical selection has preceded empirical testing. This relation has to be utterly reversed. Theories must be tested empirically before being rejected, and they must first be understood properly before they can be tested properly.

Finally, it is necessary to organise to achieve these aims: they will not be secured spontaneously. The purpose of such organisation is to combine internal critique, which provides practical institutional defence of critical pluralism, with external judgement, to place economics back where it belongs in the body of the social sciences as a whole, and to subject it – and its fellow social sciences – to the objective judgement of society as a whole.

Appendix: Rules for Pluralistic Scholarly Engagement

At the end of this Appendix, we offer the Scholarship Guidelines of the International Working Group on Value Theory (IWGVT) as a model for other associations of heterodox economists to adopt and modify as appropriate. (The authors founded the IWGVT in 1993 and have served as its co-organisers since that time.) First, however, we wish to explain the circumstances that led us to develop and implement the Scholarship Guidelines in our annual conferences and elsewhere. We shall briefly outline how a challenge to orthodox Marxist value theory emerged and why, as a result, the adoption of pluralistic, critical norms to guide the debate within value theory became an immediate concern. We shall then discuss the particular circumstances that led us to develop and implement the Scholarship Guidelines as a crucial component of our effort to organise the debate in accordance with these pluralistic, critical norms.¹⁰

¹⁰ The discussion that follows draws heavily on our “Introduction” (with Julian Wells) to Freeman, Kliman, and Wells (2004).

The Temporal Single-System Interpretation: a challenge to orthodox Marxist value theory

The Temporal Single-System Interpretation (TSSI) of Marx's value theory, which arose in the early 1980s, is controversial because it challenges a prior consensus within Marxist scholarship. In Duncan Foley's (1997:493) words, it 'endorses Marx's treatment of the transformation problem', that is, the account of the transformation of commodity values into prices of production given in Chapter 9 of *Capital*, Vol. III. It also offers the first refutation of Okishio's (1961) famous theorem, which had supposedly disproved Marx's claim that cost-reducing technical change tends to lower the rate of profit. In both cases, it confirms the logical coherence of Marx's theoretical results – which generations of earlier writers had purportedly proved to be internally inconsistent – without 'correcting' or replacing Marx's own presentation of his own views.

The TSSI's proponents do not seek a new orthodoxy. We do not assert that Marx made no mistakes, nor that other value theories and critical modifications of his ideas are illegitimate. We do insist, however, that allegations of error be substantiated. We have thus returned to Marx's texts, not in order to embrace them as infallible, but in order to ascertain whether he did indeed commit the errors that have long been attributed to him. We have found, to the contrary, that the apparent errors have arisen from misreadings of his texts.

By any objective standard, the significance of these findings is enormous. In the current historical context, they have an implication extending beyond the specialist study of value theory: they remove the only serious justification offered for the near-total exclusion of Marx's own ideas by mainstream economics. If the charges of internal inconsistency cannot be sustained, no rational basis for excluding Marx remains. Thus although the grounds for this censorship are allegedly logical, they are in fact ideological.

Given that the findings of TSSI research call mainstream economics into question in so fundamental a way, it might have been expected that Marxist economists would welcome them. Not so: TSSI authors first challenged the alleged proofs of inconsistency in Marx's value theory in the early 1980s. Since that time, mainstream Marxian (and Sraffian) economics have consistently greeted TSSI research with scepticism, incredulity, and opposition.

Critical evaluation is of course welcome; the problem is that no such response was forthcoming. The interpretation was ignored and excluded by Marxists just as economics ignores and excludes Marx.¹¹

Yet the TSSI nevertheless started to become known, especially since the publication of *Marx and Non-equilibrium Economics* (Freeman and Carchedi, 1996). Subsequently, some of its Marxist and Sraffian critics entered into a debate of sorts with its proponents. It was, however, a rather curious debate, since the critics either avoided, or indeed emphatically denied the need for, any serious re-evaluation of the question of internal inconsistency. They neither disproved the TSSI refutations of the alleged proofs that Marx's theory is inconsistent, nor acknowledged that the proofs are false. Inasmuch as these alleged proofs constitute the

¹¹ 'Single-system' interpretations that continue to adhere to simultaneous valuation (proposed by Wolff-Callari-Roberts, Ramos & Rodriguez, Chai-on Lee, and Fred Moseley) have met a similar fate. The 'New Interpretation' (or 'New Solution') of Duménil, Foley and others initially received a similar treatment.

sole justification for the near-total exclusion of Marx's own work within economics, the critics' avoidance of the issue served to perpetuate that exclusion.

Moreover, articles based on alternative interpretations continue to be rejected – even by journals of radical political economics – on the grounds that their theoretical framework and results differ from those of the received Bortkiewicz-Sweezy-Steedman interpretation. Attempts to challenge such editorial standards have been met with great hostility. As has sadly been the case in the past, therefore, the Marxists themselves have played as substantial a role in the suppression of Marx's own ideas as have their non-Marxist opponents.

Confronting Dogmatic Exclusion with Pluralistic Engagement

In the course of their re-evaluation of Marx's legacy, TSSI authors were obliged also to re-appraise the conduct of Marxist scholarship. They were driven to a realisation that they could not respond to Marx's critics as these critics behaved towards them or, indeed, towards one another. They were thus drawn into a battle on two fronts. They had to seek recognition of, and debate around, their own discoveries. And they had to examine – and, as far as possible given their limited numbers and influence, critically reshape – the practices that led to the suppression of Marx's theory.

This examination involved more than a critique of the practice of others. TSSI authors were forced to ask themselves how they could react to their predecessors and opponents, to the existing body of theory, in such a way as to remove from the discourse the very possibility of establishing a new dogma. As part of the attempt to forge a new, non-dogmatic kind of discourse, proponents of the TSSI began to restructure their own conferences – the annual mini-conferences of the IWGVT.

In a rare and entirely welcome spirit of pluralism and support for heterodoxy, the Eastern Economic Association hosted the IWGVT mini-conferences for eleven straight years, beginning in 1994. A loose association of researchers sympathetic to the TSSI, the IWGVT was originally established to provide a framework for a small group of like-minded people to present, assess and discuss their work with one another.

It soon became clear, however, that the IWGVT occupied a terrain different from that which its founders intended. Its mini-conferences quickly became large and diverse. At the 1996 conference, for instance, eighteen papers were submitted, but only a few of them were written by TSSI authors. The remainder came from people holding of a great variety of other views, who often had little in common with the IWGVT, but who nonetheless wished to discuss Marx, or Marxism, or their approaches to value at its mini-conference.

The suppression of Marx by mainstream economics had created an uneasy association by default. Scholars were flocking to a conference that had been organised to promote a research programme different from their own – a research programme in which a good many of them were uninterested and to which some of them evinced outright hostility – because in effect there was nowhere else to go.

The mini-conference organisers had to decide what to do. They could have fallen back on standard practice and tacitly excluded contributions that did not address their

concerns. Or, in recognition of their wider responsibilities to scholarship, they could have stuck with the *status quo* – continued to organise quite large conferences in which the great majority of participants not only disagreed with their views, but also declined to engage their research. Neither of these options were attractive, however, so they searched for an alternative.

At the 1995 conference, a seminal discussion took place at which the conference participants, including both advocates and critics of the TSSI approach, asked themselves whether and how to organise discussion between *paradigmatically distinct* theories of value, and interpretations of Marx, in such a way as to rule out dogmatic exclusion. The watchword of the conferences became *engagement*. It was not enough, TSSI authors argued, to follow the established procedures of ‘positive’ economics, setting out each theory on its market stall and leaving the reader to shop around. It was necessary also to read, and respond to, the alternatives to one’s theory.

The alternatives are paradigmatically distinct because they do not share a common ontology. On the surface, different value theories may seem to refer to the same things, but they assign divergent and antagonistic meanings to the most basic terms – value, profit, price, output, consumption and investment. When a proponent of simultaneism speaks of the profit rate, she does not mean the same thing as a temporalist. When a dualist speaks of value, she does not mean the same as proponents of the New Interpretation or single-system interpretations.

An analogy, explored by Freeman (2004), is the cosmological debate of the sixteenth century. Galileo and his detractors could not resolve how to settle whether the earth moved because actually, they shared no common view of what the word ‘earth’ actually meant. In the absence of a means to appeal against it, prior authority rules by inertia. Not only were established practitioners deeply suspicious of dialogue with newer interpretations, they had unknowingly fallen into an intensely dogmatic practice. Proponents of the standard interpretation assigned a meaning – their own meaning – to the words ‘value’ and ‘price’, and then judged all assertions about value and price as if this meaning were the only one possible. Texts and research projects were judged unacceptable on *a priori* ‘logical’ grounds when they were in fact fully coherent, but did not conform to the methodological and ontological presuppositions of their judges. The result was what Dow (1985, 1996) has termed a ‘closed system’. Free scientific enquiry – which demands constant critical examination and transformation of the meaning of concepts – was replaced by a system of purely deductive logic with a fixed and unalterable ontology, which would not and could not grant the legitimacy of other ways of thinking. It had ossified and become incapable of advance.

The alternative proposed by the IWGVT organisers was a set of standards termed the “IWGVT Scholarship Guidelines” adopted in 1997 and reproduced here. The basic purpose of the guidelines was to try to create conditions in which alternative theories and interpretations engage with one another. A second purpose was to secure recognition that every theory and interpretation carries with it its own conceptual framework, and therefore that a theory or interpretation can be tested properly only if the conceptual framework employed in the test is its own, rather than that of the person running the test.

From this point of view, the first function of debate is not to settle differences, but, by means of engagement, to understand what each alternative is trying to say in its own right, to

draw out the implications, and thus see where the differences lie without any prior judgement on which theory or interpretation is necessarily true. At *this* point, when the differences are clear, criteria for deciding between the alternatives can be applied.

This does not reduce to relativism. Rival theories may construct their facts in different ways, but the 'raw material' that is being observed is always common property. We may construct different aggregates, averages, or indicators from a set of tax returns or recorded commodity prices or wage rates, but we are not entitled to alter the tax returns, or simply to declare that a commodity was sold for a price other than the money actually paid for it. As regards interpretation, texts are shared and determinate 'raw materials' to which all interpreters are obliged to refer. The genuine possibility arises, therefore, to test a variety of interpretations and theories against each other, in terms of their ability to explain what all must accept as empirically given.

This may seem simple and obvious, and indeed it is. Yet judging the validity of theories in terms of their empirical success, rather than in terms of their conformity with the accepted conceptual framework and methodological norms, represents a marked departure from the common practice of economics, including Marxian economics. The invitation to engage in a pluralistic but critical dialogue was met by Marxist economists with various degrees of scepticism, ranging from bewilderment to rejection.

In retrospect, it was exceptionally optimistic to hope that critics of the TSSI could be persuaded to adopt scholarship guidelines that worked against them, even though the same guidelines were clearly to the advantage of Marxists in the wider battle against censorship.

Our experience leads us to conclude that, in order to secure the implementation of rules of pluralistic scholarly engagement, a strategy of persuasion alone is insufficient, those who benefit from different, suppressive norms of conduct will not be persuaded to follow them voluntarily. Pluralistic rules must be implemented despite, and in the face of, continuing resistance from some members of the scholarly community, even a scholarly community of heterodox economists (such as Marxist economists). To secure their implementation, it is important to enter into dialogue and work closely with those particular members and groups within the heterodox community who do favour, and/or whose interests are served by, pluralistic norms.

The IWGVT Scholarship Guidelines

Preamble

We are convinced that the de facto function of mainstream selection procedures is to exclude. Mainstream selection criteria are subjective and therefore discriminate against theories and arguments which the reviewers and editors hold in disfavor. Conversely, the following guidelines put forth some objective criteria to which, as we have learned and as we teach, good scholarship should conform.

It is common in academic discourse for proponents of one perspective to exclude, ignore, and deny legitimacy to opposing perspectives. Against this, the aim of the guidelines is to achieve a style of debate in which different perspectives engage with one another. We seek to foster a dialogue which is pluralist, because no interpretation of a theory, and no

presentation of the facts, will be ruled out a priori, but also critical, because proponents of various perspectives will need to confront the alternatives.

Inform Readers of the Alternatives

An argument is not well-grounded unless the extant alternatives have been addressed. This means that all points of view are legitimate until proved otherwise. Engage and cite the views of others involved in debating the issues you are addressing, and treat them as equals acting in good faith. If you want other people to attend to what you are saying, then attend to what they are saying.

Don't Deny Legitimacy to Alternative Views

The aim of debate is clarity, not demolition. Avoid turns of phrase such as 'absurd', 'ridiculous', or 'impossible' to deny the legitimacy of opposing views, or phrases like 'as is widely known' or 'of course' to prove your own views are undeniable.

Identify the conceptual basis of "facts"

Economic data are not undisputed facts of nature but the result of a theoretical interpretation which should be explicit. 'The real output of the UK economy in 1994 was £570,722m' is a false claim. 'Output as measured by the UK NIPAs, deflated using the HMSO GDP deflator, was £570,722m' specifies the conceptual framework that produced the claim, and lets the reader trace the assertion back to its source.

Distinguish Original Texts from Subsequent Interpretations

You must distinguish clearly between an original text and subsequent interpretation. John Maynard Keynes did not say that equilibrium in the goods and money markets is given by the intersection of the IS and LM curves. This is Hicks' interpretation of Keynes. Karl Marx did not say that value is a vertically-integrated labour coefficient: this is the interpretation of Marx proposed by Linear Production Theory.

Argue from Evidence

Both statements about the world and interpretations of texts must be supported by empirical evidence, from the world or from the text, respectively. Appeals either to authority or to popular wisdom do not constitute evidence. Avoid Ad Hominem reasoning: don't try to substantiate or refute an argument by reference to any characteristic of the person presenting it.

Distinguish Between Internal Inconsistency, Interpretive Difficulties, and Disagreement

If you justify your approach by asserting that opposing views are inconsistent, you are declaring they cannot possibly be right and you hence exclude them from discussion. If you have only demonstrated the inconsistency of your own reading of these views, then your proof is false because you have not exhausted the alternatives; but you have closed down the dialogue. If you want to say a view is inconsistent, provide evidence that it cannot be interpreted otherwise. Unless you can do this, instead say that you have difficulty making sense of the argument, or that you disagree with it, as the case may be.

Characterize Schools of Thought in the Preferred Manner

Do not use a characterisation for the purpose of dismissal. In debate, refer to other schools of thought by the name they prefer (for example, 'surplus approach' in preference to 'neoricardian') unless you are including them in a wider grouping with no recognised name. In the latter case, try to provide an accurate, descriptive term.

References

- Blustein, P (2004), *IMF Says Its Policies Crippled Argentina: Internal Audit Finds Warnings Were Ignored*, Washington Post July 30 2004 <http://www.washingtonpost.com/wp-dyn/articles/A25824-2004Jul29.html>
- Card, David E. and Krueger, Alan B. (1995). *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton: Princeton Univ. Press.
- Cassidy, John (1997), 'The Return of Karl Marx', *The New Yorker*, 20 & 27 October, pp. 248ff.
- Dow, Sheila C. (1985). *Macroeconomic Thought: A Methodological Approach*. Oxford: Basil Blackwell.
- (1996). *The Methodology of Macroeconomic Thought*. Cheltenham, UK: Edward Elgar.
- Duménil, Gérard (1980), *De la Valeur aux Prix de Production. Une Réinterprétation de la Transformation*, Paris: Economica.
- Foley, Duncan K. (1997). Review of *Marx and Non-equilibrium Economics*, *Eastern Economic Review* 7.
- (1982), 'The Value of Money, the Value of Labour Power and the Marxian Transformation Problem', *Review of Radical Political Economics*, 14(2).
- (1983), 'Beyond the Transformation Riddle: A Labor Theory of Value', *Science and Society* 47:4, Winter, pp427-450.
- Freeman, Alan (2004). The Case for Simplicity: A paradigm for the political economy of the 21st century. In Freeman, Alan; Kliman, Andrew; and Wells, Julian (eds.), *The New Value Controversy and the Foundations of Economics*. Cheltenham, UK: Edward Elgar.
- (2007): *Heavens Above: What Equilibrium Means for Economics*. Forthcoming in Mosini, V. (ed) (2007) *Equilibrium in Economics: Scope and Limits*, London: Routledge
- Freeman, Alan and Carchedi, Guglielmo (eds.) (1996), *Marx and Non-equilibrium Economics*.
- Freeman, Alan; Kliman, Andrew; and Wells, Julian (eds.) (2004): *The New Value Controversy and the Foundations of Economics*. Cheltenham, UK: Edward Elgar.
- Freud, Sigmund (1938). *The Psychopathology of Everyday Life*. Harmondsworth: Penguin.
- <http://copejournal.org> , the website of *Critique of Political Economy Journal* 23:4.
- Kliman, Andrew (2006). *Reclaiming Marx's "Capital": Beyond the Transformation Problem and Other Myths of Inconsistency*. Forthcoming. Lanham, MD: Lexington Books.
- Manning, Alan (2003) *Monopsony in Motion: Imperfect Competition in Labor Markets*. Princeton and Oxford: Princeton University Press
- Martin, Brian (1998). Strategies for Dissenting Scientists, *Journal of Scientific Exploration* 12:4, pp. 605-16.
- Okishio, Nobuo (1961). Technical Changes and the Rate of Profit, *Kobe University Economic*
- Ormerod, Paul (1994). *The Death of Economics*. London: Faber and Faber.
- Ramos-Martínez, A. and Rodríguez-Herrera, A. (1993), 'The transformation of values into prices of production, luxury articles and commercial capital', *Plusvalore*, No. 13, Milano.

Reder, Melvin W. (1982). Chicago Economics: Permanence and Change. *Journal of Economic Literature* 20:1, pp. 1-38.

Uglow, Jenny (2002). *The Lunar Men: The Friends Who Made the Future*. London: Faber and Faber.

UK Low Pay Commission (2005) "National Minimum Wage: Low Pay Commission Report 2005" London: the Stationery Office, cm 6475

www.iwgv.org, the website of the International Working Group on Value Theory (IWGVT)

Wolff, R., Roberts, B. and Callari, A. (1982), 'Marx's (not Ricardo's) "Transformation Problem": A Radical Reconceptualization', *History of Political Economy*, Vol 14 No. 4., pp 564-582.

SUGGESTED CITATION:

Alan Freeman and Andrew Kliman, *Beyond Talking the Talk: Towards a Critical Pluralist Practice*, *post-autistic economics review*, issue no. 40, 1 December 2006, article 4, pp.26-53,
<http://www.paecon.net/PAERreview/issue40/FreemanKliman40.pdf>

Social Cohesion vs. Social Change:

A Note on Theoretical Debates

Rick Wolff (University of Massachusetts, Amherst, USA)

© Copyright: Rick Wolff 2006

Eric Roll, among others, has noted that the history of economic thought is divisible into two basic types of economic theorizing. One type has presumed the possible existence of and also advocated for social cohesion. It thus sought to determine those specific conditions and institutions (systems of property, production, distribution, etc.) that would enable and foster social cohesion. For the other type of economic theory, social struggle was rather the presumed reality and social change has been the goal. It thus sought rather to determine the economic contradictions animating social life with a view toward intervening in them with a specific, partisan agenda for social change. Social cohesionist economics has long contended with social change economics.

Where and when markets became a socially significant mode of distributing productive resources and outputs of goods and services, economic thought devoted to markets has been correspondingly divided. One type has generally appreciated markets as mechanisms – appropriate, conducive, and more or less sufficient - for social cohesion. The other has found markets to be rather objects for social struggle and sites of social change. The last century of economic thought illustrates the point.

Among social-cohesionists, one strain of economists has celebrated markets by holding that economic efficiency is assured when markets impose on firms the rule to produce to the point where marginal cost equals unit price. For these market celebrants, markets imposing such rules secure the economic efficiency that secures social cohesion. However, another strain of social-cohesionists has been critical of markets. In one of their enduring lines of argument, these critics reiterate that the firm's individual, private marginal cost is not equal to what came to be called the social marginal cost. Simply put, a firm could not know, let alone measure, all the present and future costs associated with any of its production decisions. Nor did private profit maximization require the firm to do so. The firm needs only to calculate the costs it actually has to defray. Other costs borne by others are none of its concern. Thus, when the firm equates output unit price with its private marginal cost, its profit maximization is not equivalent to economic efficiency in any comprehensive, society-wide sense. Many market-critical economists have made the same point – and elaborated it in countless ways - by differentiating costs “internal” to firms' calculations from “external” costs or “externalities.”

Not surprisingly, the market celebrants developed a response to the market critics. First, some celebrants pointed out that externalities should include not only costs but also benefits. As Coase noted, there could well be an infinity of present and future social costs and benefits associated with any firm's production decision beyond what that firm could know or measure or pay or receive. This served nicely to muddy the waters of debate between the two sides. Since firms' private cost calculations excluded not only some social costs but also some social benefits, no net excess of social costs over benefits need be presumed. Thus, economic *inefficiency* could *not* necessarily be inferred from firms' following the rule of equating private marginal cost with unit price. While not as happy a conclusion as the earlier notion that social efficiency was guaranteed by firms' private, self-interested profit-maximizing behavior, this weaker notion - that social inefficiency was not guaranteed either - satisfied many among the market celebrants who thus pursued their celebrations.

Meanwhile, the market critics proceeded too, little dissuaded by the Coasian response. Many of them have stressed that externalities justify state interventions aimed to correct or improve upon firms' decisions based on private marginal costs and benefits. The market critics' social-cohesionist commitments were clear since they warranted such state intervention in terms of furthering social cohesion. For market critics, state intervention could and should move the economy "closer to" comprehensive, society-wide economic efficiency. The intervention would transform at least some "external" into "internal" costs and benefits actually calculated by firms or else overrule private firm decisions with more socially efficient state decision. State and market together would then achieve the comprehensive efficiency and hence social cohesion that the private market alone failed to secure.

The debates over private versus social marginal costs and benefits blended smoothly into the more general neoclassical vs Keynesian debates over state interventionism. One group of social-cohesionist economists contends repeatedly with another group: market celebrants against market critics. The shared presumption and commitment on both sides is the notion of markets, economies, and societies as potentially cohesive. For the celebrants, free markets provide the ideal vehicle for social cohesion, whereas the critics see the need for limited state intervention to enable markets to support that social cohesion. Celebrants and critics alike think markets need not and should not be sites for social struggle and continuous social change.

For many decades now, the debate between the two strains of social-cohesionist economics has continued and oscillated among hot, cold, and lukewarm levels of intensity. Market efficiency celebrants rail against their externality critics while moderates on both sides locate and advocate middle positions. Partisans in larger social struggles variously select, exaggerate, and reproduce the various positions in the debates to serve their respective goals. Just so has the "science" of economics always been socially useful.

In recent decades, the same basic debate has been relaunched yet again but in a somewhat altered inflection dressed in an altered language. Market efficiency critics discovered the "moral hazard" problem. These critics often cited insurance contracts as a prime example. Because such contracts reduce the private costs of risky behavior, that behavior will occur more often (than if insurance were unavailable) and thereby impose more social costs. Moral hazard problems represent rediscoveries of the divergence between private and social marginal costs.

As with the debates over the problem of private-vs-social marginal costs, moral hazard problems serve some theorists as the basis to undermine claims that individual private actions tend toward the socially optimal (cohesive) because of their "efficiency," i.e. their optimization of an objective calculus of their likely costs and benefits. Once again - and to no-one's surprise - some theorists use moral hazards as warrants for state intervention, etc. Little new arises in the moral hazard literature since it re-enacts the same split in the social-cohesionist camp of economists that was displayed in the private versus social marginal cost discussions. There is no escaping the general problem that neither individuals nor groups of individuals can ever know, let alone measure, all the costs and benefits of any action or event in any economy. Thus, the presence or absence of moral hazard problems cannot be compared in terms of their effects on social efficiency any more conclusively than the effects of state interventions versus non-interventions into the workings of an otherwise private economy. Yet there is a refusal to face the foundational logical impossibility entailed in any

effort to calculate a comprehensive cost-benefit analysis for any economic action or event. That refusal is the necessary premise for inventing and elaborating new variants on the old debates over private versus social marginal costs.

How then does the other basic type of economics – focused on social change rather than social cohesion – treat markets and efficiency? The first part of that type's answer entails its systematic, logical criticism of the efficiency fetish (see my "'Efficiency': Whose Efficiency" in the *post-autistic economics review*, no. 16, 2002). The second part argues that social struggles over a large range of issues – from cultural and political processes to economic and natural processes – can and often do include conflicts that occur in markets. For an example taken from the Marxian tradition, employers who seek to enlarge the gap between the value added by their employees in production and the value of wages paid to them will struggle in the market to reduce the going wage rate. They will seek to reduce demand for productive labor power while increasing its supply; they will seek institutional constraints that lower wage rates or wage-linked "benefits," and so on. The social-cohesionist economists' debate - over whether market wage rates do efficiently reflect the marginal productivity of labor and the marginal disutility of effort and whether state interventions might move the economy closer to such efficiency outcomes – could not be more irrelevant to what concerns the social change economists. The latter treat markets as sites for the struggle of contending social forces: in this case, capitalist employers and their productive employees. Efficiency, for the social change economists, is the fetishized distraction of economists' attention from the realities of social struggle and toward the twin illusions of comprehensive efficiency and the social cohesion that they imagine its achievement will secure.

Once again, we may note certain parallels between the social-cohesionist debates over efficiency and those over state intervention in the economy. In the latter, neo-liberals and Keynesians argue over whether the social cohesion of modern capitalism is more secure with laissez-faire or with state intervention. In the former, market celebrants and market-critics argue over whether markets alone or markets with state intervention get closer to comprehensive economic efficiency and thereby better secure social cohesion.

The chief alternative to both sides of the social cohesionist debates (neo-liberals' versus Keynesians as well as market celebrants versus market critics) is, of course, Marxian economics in so far as its grasped as a basically different theoretical framework focused generally on social struggle and change and more particularly on class structures and their transformation (S. Resnick and R. Wolff, *New Departures in Marxian Theory*, 2006). When understood in that way, Marxian economics is the basic adversary of all variants of social-cohesionist economics.

SUGGESTED CITATION:

Rick Wolff, "Social Cohesion vs. Social Change", *post-autistic economics review*, issue no. 40, 1 December 2006, article 5, pp. 54-56, <http://www.paecon.net/PAEReview/issue40/Wolff40.pdf>

Editors Note: The articles below by Philip Ball and Paul Ormerod are republished here with the permission of the *Financial Times*. Ball's article is an expanded version of the *FT* original.

Baroque Fantasies of a Peculiar Science

Philip Ball* (*Nature*, UK)

It is easy to mock economic theory. Any fool can see that the world of neoclassical economics, which dominates the academic field today, is a gross caricature in which every trader or company acts in the same self-interested way with cool, omniscient rationality. The theory fails the basic requirement of a science that it can explain or predict the real world, and has evidently failed to make that world any fairer or more pleasant.

The usual defence is that you have to start somewhere. But mainstream economists no longer appear to consider their core theory to be a 'start' at all. The tenets of neoclassical economics are now so firmly embedded that economists who think it is time to move beyond them are cold-shouldered. These ideas have hardened into a rigid dogma, and to challenge them is to invite blank stares of incomprehension – you might as well be telling a physicist that gravity doesn't exist.

That's disturbing, because even if economists know in their heart of hearts (and not all of them do) that the neoclassical model is indeed a caricature, its shortcomings are rarely acknowledged to those who will go on to run, or pontificate on, the world with a dose of undergraduate economics. 'Although the accepted image of economic society is not the reality', wrote J. K. Galbraith in 1973, 'it is what is available. As such it serves as a surrogate for the reality of legislators, civil servants, journalists, television commentators, professional prophets – all, indeed, who must speak, write, or act on economic questions.'

And so it is. Neoclassical idiocies persuaded many economists that market forces would create a robust post-Soviet economy in Russia (corrupt gangster economies don't exist in neoclassical theory). Neoclassical ideas favouring unfettered market forces may determine whether we adopt the euro, how we run our schools, hospitals and welfare system. Yet while mainstream economic theory remains fundamentally flawed, we are no better than doctors diagnosing with astrology.

Neoclassical economics asserts two things. First, in a free market, competition establishes a price equilibrium that is perfectly efficient: demand equals supply and no resources are squandered. Second, in equilibrium no one can be made better off without making someone else worse off.

It's tempting to infer that, because these conclusions sit so comfortably with right-wing convictions, the dominance of neoclassical theory has political origins. But while neoclassical economics has justified much right-wing policy-making, the truth goes deeper. Economics arose in the eighteenth century in a climate of Newtonian mechanistic science, with its belief in forces in balance. And the foundations of neoclassical theory were laid when scientists were exploring the notion of thermodynamic equilibrium. Economics borrowed the wrong ideas from physics, and is now reluctant to give them up.

his is not to suggest that economic theory is simple. Far from it. It is one of the most mathematically complicated subjects among the 'sciences', as difficult as quantum physics. That too, however, is part of the problem: neoclassical theory is such an elaborate contrivance that there is too much at stake to abandon it.

It is almost impossible to talk about economics today without seeming to endorse its myths. Take the business cycle: there *is* no business cycle in any meaningful sense. In every other scientific discipline, a cycle is something that repeats periodically. Yet there is no absolute evidence for periodicity in economic fluctuations. Prices sometimes rise and sometimes fall. That's not a cycle; it is noise.

This is not semantics: words condition thinking, which is why talk of cycles has led economists to hallucinate all kinds of fictitious oscillations in economic markets. Meanwhile, the Nobel-winning neoclassical theory of the so-called business cycle 'explains' it by blaming economic fluctuations on events outside the market. This salvages the precious idea of equilibrium, and thus of market efficiency. And so analysts talk about the market making 'corrections', as though there is some ideal state that it is trying to attain. But in reality, the market is intrinsically prone to leaps and lurches.

One can go through economic theory systematically demolishing all the cherished principles that students learn: the Phillips Curve relating unemployment and inflation, the efficient market hypothesis, even the classic X-shaped intersections of supply and demand curves. According to economist Paul Ormerod, author of *The Death of Economics*, one of the most limiting assumptions of neoclassical theory is that agent behaviour is fixed: market agents pursue a single goal regardless of what others do, and the only way one agent can influence another's choices is via the indirect effect of trading on prices. But it is abundantly clear that herding – irrational, copycat buying and selling – provokes market fluctuations.

There are ways of dealing with the variety and irrationality of real agents in economic theory. Indeed, economists insist that all the simplifications of neoclassical theory are recognized and improved on in their literature. Several recent Nobel prizes in economics have been awarded for work that attempts to do just that. This is all true; but it is too easy, too blithe a defence. Neoclassical ideas remain at the core of the subject – they are pretty much all students will encounter, and they often serve as the non-negotiable starting point for economic theory. One group of innovative economists became so fed up with being excluded from mainstream journals because their models were not rooted in neoclassical assumptions that in June they started their own journal.

There is no other 'science' in such a peculiar state, where a demonstrably false conceptual core is sustained by inertia alone. This core, appropriately known as the Citadel, remains impregnable while those inside fashion an increasingly baroque fantasy. But as Alan Kirman, a progressive economist, has said, "no amount of attention to the walls will prevent the Citadel from being empty."

* **Philip Ball** is consultant editor of *Nature* and author of *Critical Mass* (Heinemann).

SUGGESTED CITATION:

Philip Ball, "Baroque Fantasies of a Peculiar Science", *post-autistic economics review*, issue no. 40, 1 December 2006, article 6, pp. 57-58, <http://www.paecon.net/PAEReview/issue40/Ball40.pdf>

Shun the rational agent to rebuild economics

Paul Ormerod* (Volterra Consulting, UK)

Philip Ball's recent article on mainstream economics ("Baroque fantasies of a most peculiar science", *Financial Times*, Comment October 30, 2006) has attracted strong criticism on the letters page. Mr Ball argues that the subject relies on the rational, omniscient decisionmaker. Further, it has mistakenly placed an idea from physics - that of thermodynamic equilibrium - at the core of its theory. His critics claim that this is a caricature of the subject. Substantial advances have been made, they say, particularly in the last 10 to 15 years.

This latter point is certainly true. The list of economics Nobel laureates in the 21st century is largely made up of scholars who have worked outside the traditional rational agent paradigm of neo-classical economics. The work of Daniel Kahneman at Princeton University and Vernon Smith, at George Mason University deserves special mention. They created, almost on their own, the discipline of experimental economics. Standard economics merely assumes that people act in a particular way. Mr Kahneman and Mr Smith tested how people really do behave.

Their conclusions are a devastating blow to the postulates of the rational decisionmaker. In general, people gather limited information, reason poorly and act intuitively rather than rationally. All scientific theories, even quantum physics which has survived the most rigorous empirical tests, are approximations to reality.

The question is, in any application: how good is the approximation? In limited circumstances, the conventional economic view of rational behaviour is a good one. But most of the time it is a poor approximation, sometimes very poor. Its use can give seriously misleading views of how the world actually operates.

The challenge of reconstructing economic theory virtually from scratch makes it an exciting time to be an economist. It is attracting eminent researchers from other disciplines, such as mathematical sociology, computer science and statistical physics. One from the last of these, Doyne Farmer of the Santa Fe Institute, has a model that replicates many of the subtle features of prices on the London Stock Exchange. But far from assuming that traders are rational, he postulates that they have literally zero intelligence. Yet the model works very well.

The problem, and it is a very big one, is that most economists continue to act as if very little has changed and that the rational agent postulate remains generally valid. Game theory, for example, has come to dominate much of economics. But outside the realms of auctions designed by economic theorists, it has few practical applications. The prisoner's dilemma, one of the most famous games where individually rational actions can give rise to an outcome that no one would choose, has been studied intensively for over 50 years. Yet, except in wholly trivial cases, the "optimal" - a word beloved by economists - strategy remains unknown. The demands placed on the cognitive abilities of decisionmakers in game theory are stupendous. A logical implication of the game theoretic view of the world is that the axioms of mathematics merely have to be stated for everyone immediately to know all the theorems of maths.

The textbooks used to instruct most students have, if anything, gone backwards in recent years. Aimed at the mass market of US community college students, they have dumbed down the subject to a terrifying degree. Even the material presented to strong students is replete with "theorems" and "lemmas" based on postulates of behaviour that have been discredited empirically within economics itself.

In practice, even professional economists fall back all too readily into the comforting world of the con-ventional rational agent. Competition policy, for example, is still derived from these theoretical principles, leading to the erroneous view that markets with fewer companies are necessarily less competitive. Yet the consumer has benefited enormously from innovations in markets such as food supermarkets and information technology that are dominated by a small number of large companies.

Even the very, very best are not immune to the temptation. Kenneth Arrow of Stanford University is perhaps the most distinguished economic theorist of the second half of the 20th century. He established, decades ago, fundamental results in general equilibrium theory, the central core of conventional economics. Professor Arrow has subsequently been severely critical of this theory, describing it as being "empirically falsified". This year he addressed the British Association for the Advancement of Science on "economics and sustainability". Which model did he use to draw his conclusions? The rational, maximising representative decisionmaker!

So, yes, at its frontiers economics is changing dramatically in exciting and challenging ways. But almost all economics as it is actually taught and practised lags many years behind.

* **Paul Ormerod** is a director of Volterra Consulting and author of the *Death of Economics* (John Wiley & Sons). His latest book is *Why Most Things Fail* (Faber & Faber).

SUGGESTED CITATION:

Paul Ormerod, "Shun the rational agent to rebuild economics", *post-autistic economics review*, issue no. 40, 1 December 2006, article 7, pp. 59-60, <http://www.paecon.net/PAEReview/issue40/Ormerod40.pdf>

EDITOR: Edward Fullbrook

PAST CONTRIBUTORS: James Galbraith, Frank Ackerman, André Orléan, Hugh Stretton, Jacques Sapir, Edward Fullbrook, Gilles Raveaud, Deirdre McCloskey, Tony Lawson, Geoff Harcourt, Joseph Halevi, Sheila C. Dow, Kurt Jacobsen, The Cambridge 27, Paul Ormerod, Steve Keen, Grazia Ietto-Gillies, Emmanuelle Benicourt, Le Mouvement Autisme-Economie, Geoffrey Hodgson, Ben Fine, Michael A. Bernstein, Julie A. Nelson, Jeff Gates, Anne Mayhew, Bruce Edmonds, Jason Potts, John Nightingale, Alan Shipman, Peter E. Earl, Marc Lavoie, Jean Gadrey, Peter Söderbaum, Bernard Guerrien, Susan Feiner, Warren J. Samuels, Katalin Martinás, George M. Frankfurter, Elton G. McGoun, Yanis Varoufakis, Alex Millmow, Bruce J. Caldwell, Poul Thøis Madsen, Helge Peukert, Dietmar Lindenberger, Reiner Kümmel, Jane King, Peter Dorman, K.M.P. Williams, Frank Rotering, Ha-Joon Chang, Claude Mouchot, Robert E. Lane, James G. Devine, Richard Wolff, Jamie Morgan, Robert Heilbroner, William Milberg, Stephen T. Ziliak, Steve Fleetwood, Tony Aspromourgos, Yves Gingras, Ingrid Robeyns, Robert Scott Gassler, Grischa Periono, Esther-Mirjam Sent, Ana Maria Bianchi, Steve Cohn, Peter Wynarczyk, Daniel Gay, Asatar Bair, Nathaniel Chamberland, James Bondio, Jared Ferrie, Goutam U. Jois, Charles K. Wilber, Robert Costanza, Saski Sivramkrishna, Jorge Buzaglo, Jim Stanford, Matthew McCartney, Herman E. Daly, Kyle Siler, Kepa M. Ormazabal, Antonio Garrido, Robert Locke, J. E. King, Paul Davidson, Juan Pablo Pardo-Guerra, Kevin Quinn, Trond Andresen, Shaun Hargreaves Heap, Lewis L. Smith, Gautam Mukerjee, Ian Fletcher, Rajni Bakshi, M. Ben-Yami, Deborah Campbell, Irene van Staveren, Neva Goodwin, Thomas Weisskopf, Mehrdad Vahabi, Erik S. Reinert, Jeroen Van Bouwel, Bruce R. McFarling, Pia Malaney, Andrew Spielman, Jeffery Sachs, Julian Edney, Frederic S. Lee, Paul Downward, Andrew Mearman, Dean Baker, Tom Green, David Ellerman, Wolfgang Drechsler, Clay Shirky, Bjørn-Ivar Davidsen, Robert F. Garnett, Jr., François Eymard-Duvernay, Olivier Favereau, Robert Salais, Laurent Thévenot, Mohamed Aslam Haneef, Kurt Rothschild, Jomo K. S., Gustavo Marqués, David F. Ruccio, John Barry, William Kaye-Blake; Michael Ash, Donald Gillies, Kevin P. Gallagher, Lyuba Zarsky, Michel Bauwens, Bruce Cumings, Concetta Balestra, Frank Fagan, Christian Arnsperger, Stanley Alcorn, Ben Solarz, Sanford Jacoby, Kari Polanyi, P. Sainath, Margaret Legum, Juan Carlos Moreno-Brid, Igor Pauno, Ron Morrison

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

Subscriptions to this email journal are free.

Back issues of this journal and other material related to the PAE movement are available at www.paecon.net.

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

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