

Towards a New Economics

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About a dozen years ago I heard a Canadian environmentalist, David Suzuki, passionately denounce standard economics for its "stupidity". Suzuki was incensed at economics for its blind faith in growth and its ignorance of "natural capital". I was concerned about the environment and wanted to see what the heck was going on, so I interrupted my computer career and returned to university to study this muddled discipline.

I found exactly what the PAE movement is now rejecting: pointless abstraction, dogmatism, and a fervent right-wing bias. Evidently economics training in Canada is much the same as in France and elsewhere. I took eight or nine economics courses, dropped some upper-level subjects because of their revolting technicality, and slunk back to my computer career with a Bachelor of General Studies degree and an extended minor in economics.

In other words, I didn't become an economist, and I'm not an academic. However, I have continued to study economics intensely, and now feel justified in putting the coveted UET designation after my name - Unaffiliated Economic Thinker. As a self-appointed UET, let me offer my views on the PAE initiative.

To begin, we have to separate the teaching of economics from the discipline itself. PAE started as a reaction against both the suffocating methods of instruction and the aloof formalization of neoclassical theory. But as several contributors to PAE Review have remarked, it's time to move beyond the teaching and focus on the theory.

In his useful history of the PAE movement, Edward Fullbrook states that we are now at stage three - creating a new framework for analysis and pressuring economics itself to change. I agree. In the remainder of this article I will therefore emphasize the discipline of economics rather than its instruction.

The necessary starting point in building a new theory is to be clear about the shortcomings of neoclassical economics (NCE). Numerous problem areas have been cited by PAE contributors. Besides the disconnected models and excessive use of mathematics, NCE is said to suffer from methodological individualism, from a lack of historical perspective, from a lack of contact with concrete reality, and from ignorance of culture, gender, social institutions, and the environment.

All true to some degree, but missing the essential point, which is that NCE was built for capital. NCE is not a "stupid" theory, despite Suzuki, but one with the specific purpose of serving capital's practical and political needs. Consider the history.

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Capitalism's development began around 1500. The classical economists - Steuart, Petty, Smith, Ricardo - grappled more or less objectively with the workings of the new system, until an ideological split occurred about 1800. Ricardo and Marx carried on the classical tradition, basing their analysis on the labor theory of value. Say and Senior, among others, went in a direction more suited to the rising capitalists and essentially founded NCE.

The classical branch was aggressively developed by Marx, but did not advance much after his death in 1883. Too much deference to the great man, and excessive focus on his historical and political writings, virtually froze his trenchant economic analysis in time.

The standard branch, on the other hand, was actively developed by mainstream thinkers, most importantly the marginalists: Jevons, Menger, and Walras. They uprooted the labor theory of value and replaced it with a utility theory. This purged economics of any revolutionary content and left it with a shallow analytical method, perfectly suited to capital's needs.

Why "perfectly suited"? Because the theory is fixated on the hurly-burly of exchange, which is where capitalists live. It guides them individually in competition and collectively in pressing their political demands. And it fills the intellectual space for economic ideas, crowding out theories that might probe the system's systemic depths and expose its nasty secrets.

So what's most fundamentally wrong with NCE is ... it's theirs. To the extent that we don't share capital's social role and economic objectives, NCE is a foreign tool.

It's true that, within limits, NCE can be modified and extended for alternative purposes. Paul Krugman does good things with it in his New York Times column, defending workers and whacking Republicans. Herman Daly and the ecological economists apply NCE concepts to environmental issues. Amartya Sen invokes the spirit of Adam Smith to guide the development process, although for him the standard garb is an awkward fit.

But while an adroit person can drive a nail with a rock, a hammer is the better implement, and using a rock to pull a nail is an exercise in futility.

NCE, for instance, is a rock that can't address the human ends and human costs of economic activities. It simply has no terms or concepts for these things. It can't deal with class relations because it long ago rejected exchange value and therefore the social basis of prices and exchange. It can't handle capitalism's underlying dynamics or secular tendencies because its tools are restricted to market activity at the surface. And it really can't deal with ecological constraints, because it was built with infinite resources as a core assumption.

No modifications or extensions will fix these problems. If we want to seriously examine such issues we have to discard the rock and fashion ourselves a hammer.

If you had any doubts about the possibility of alternatives to NCE, by the way, put them to rest. Any science is an interpretation of reality and is therefore based on a specific viewpoint. In a class-based, gender-divided society, multiple viewpoints are inevitable, particularly in the social sciences. Economics is by no means a natural monopoly; it cries out for competition.

The sobering fact, however, is that entry to this intellectual market is costly. It took NCE 100 years to get from Smith to the marginalists, and 130 more to arrive at its present state. Along

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the way many brilliant people did a lot of hard work. While I'm not proposing a project lasting a century or two, there's much to do, so we should understand what the task entails.

An economic theory is a logical structure with a well-defined axiomatic foundation, consistent concepts derived from those axioms, and analytical tools based on those concepts.

NCE qualifies because it posits the individual and the firm, utility maximization and profit maximization, and builds a fully integrated structure from there. We may not like the structure, but it's there. In my view, the various heterodox approaches are variations on the neoclassical theme, not fully developed theories.

A new theory must begin by specifying its analytical purpose. For example, a theory might be created to evaluate an economy's inputs and outputs in terms of their effects on human life and health.

The next step would be to state the theory's axioms, which in most cases are embedded in the definitions of core terms. For our theory we might adopt John Ruskin's intrinsic value and effectual value on the consumption side, and define absolute cost as the health effects of production.

Then, to the extent that the theory is amenable to quantification, we have to graph the relationships. This frequently points to internal contradictions. Once these have been removed we can build the analytical tools. Using our value and cost definitions, we could construct methods to determine the optimal quantity and quality of outputs, and to address economic well-being and distribution.

With such a beginning in place, or even earlier, the proposed theory must be opened to criticism and incremental improvement. This is critical. If an approach has an undocumented foundation and opaque logic, it will allow passionate debate but little scientific development. Alternative economic theories must expose themselves to the rigors of transparency and refutation.

If this process is successful we will be rewarded with a rigorous analytical method, independent of capital's viewpoint and influence.

The PAE movement should continue to push for less stultifying ways to teach NCE. But alongside this effort we should begin to formulate new theories in a disciplined manner. With luck, our children will one day open their university calendars and find our theories in the curriculum. And if we're really lucky, their teachers will be superb.
