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From Galileo to Brecht: how to teach economic doctrines, all of them, as systems of beliefs¹

Introduction

This paper is based on my teaching experience in the Political Economy Department of the University of Sydney. The formation of that Department, something which is taking us straight into the issue of pluralism, has been a long process in which also people of non-neoclassical orientation had some misgivings. In a nutshell, back in the late 1970s some of my colleagues argued that mainstream economics is so structurally devoid of pluralism that alternative paradigms and ideas have to be taught in a different program eventually leading to a separate Department of Political Economy, a fact which materialized in 1999. Thus we are talking about a more than two decade long process of emancipation during which different views and theories were taught in a separate Political Economy Program within the Economics Department. Other people, such as the present writer, argued that the diversity of views and especially Marxian and Post-Keynesian economics had to be brought into the main body of economic teaching so as to reach the largest possible number of students. This approach presupposes willingness to

¹ Why Galileo? Because when Galileo Galilei was teaching in Padua he did not believe in the Ptolemaic system that he was told to teach and tried to make criticism at the margins. But it could not work. As to day criticism within the dominant paradigm and its institutional structure cannot work and ends up being subaltern to the dominant paradigm itself. Witness the hopeless trajectory of the Italo-Sraffians: they must revive the most traditional neoclassical theory in order to exist! (see Petri, 2004). Why Brecht? Because Bertold Brecht wrote one the best plays on Galileo and there is a whole line of thought in Brecht emphasizing the political significance of the necessity to doubt. But the real role model in economics should be Giordano Bruno. Most economists of all sects, with the exceptions of the institutionalists and few others, scattered among the different denominations, are however minor replicas of Bellarmino, the Cardinal of the Santa Inquisizione (see Appendix).

compromise, whether voluntarily or under public pressure, on the part of the bulk of mainstream economists and, given the archaic nature of Australia's universities, on the part professors and deans. It was not to happen – thus the colleagues who argued the case for a separate department were right from the start – and it could not happen since the very essence of neoclassical economics is condensed in the claim that methodological individualism is the only legitimate approach to economic analysis. A point very well argued and criticized by Yanis Varoufakis (1998) and by Arnsperger and Varoufakis (2005). Essentially neoclassical economics can even claim not to be so any longer without negating any of its founding axioms defined by Arnsperger and Varoufakis as methodological individualism, methodological instrumentalism à la Hume, and the axiomatic imposition of equilibrium. The neoclassical economists will immediately consider any discourse outside this framework as foreign to economics, they will see it either as a nicety to be taught in marginal courses or as positively dangerous and thus to be tendentially expelled from the teaching curriculum (perhaps by eventually claiming that too few private fee paying students attend those courses).

By 2000 the Department of Political Economy was set up separately from Economics and, few years later, we faced the task of organizing our first and second year courses in a manner consistent with a Department in its own right rather than a program within a mostly mainstream division. I was given the task to form our totally new second year economic theory course which was to follow from the first year course taught by Frank Stilwell on the basis of the competing paradigms approach. This meant that by the end of the first year students would have already had a rather coherent picture of the context of economic ideas (Stilwell, 2002). And here is where my story begins.

What kind of pluralism?

The tasks and challenges I faced can be summed up in a series of self-reflective questions.

- What would I say if I were to be asked whether I believed in the concrete explanatory power of any set of economic doctrines? My reply would be and is a straight and unambiguous NO! As much as I do not believe in the natural tendency of markets to equilibrate, I do not believe in the utilization of equilibrium analysis to gauge disequilibrium situations. In other words I do not think that if one modifies the standard partial equilibrium supply and demand approach by introducing asymmetric information an similar esoteric stuff, will gain any insights into the working of the 'economic' system (of which, at best, we have only a scant perception), since the issue is the validity of the partial equilibrium system as such and not this or that ad hoc modification.
- I would also reply in strong negative terms if I were to be asked whether I thought that, by depressing real wage rates, a 'Reserve Army of Labor' would stimulate capital accumulation. I would argue that this could happen only if we are certain that a reduction in real wages, through the pressure of the Reserve Army of Labor, were to be accompanied by a more or less immediate increase in investment as to counterbalance the reduction in the

dynamics of demand for consumption goods. In other words deciding not to have dinner tonight – which is what a reduction in wages would metaphorically bring about – does not generate investment and accumulation. Clearly such a reduction would affect investment demand stemming from the consumption goods industries. It follows that the automatic counterbalancing expansion of investment need not occur at all, unless capitalists have very peculiar expectations. Namely, they should interpret the decline/slow down in consumption demand as a signal that the demand of their own investment goods is rising!

- Equally unsympathetic would be my reaction to the contention that long terms falls in the rate of accumulation and in the rate of profits are due to a secular rise in the capital intensity of production. Not only the supposed secular rise cannot be ascertained independently from the chain of short period situations, but the very phenomenon of increasing the degree of mechanization (machines per worker) without an increase in the capital intensity – capital per output – is indeed the rule in modern economies (Pasinetti, 1981).
- If someone were to tell me that any increase in spending would boost demand thereby setting up the process of the so-called multiplier, I would not believe her/him either. It depends on the circumstances and no general condition regarding the activation of the multiplier can be established a-priori.

Thus one of the tasks of pedagogical pluralism would be, in my opinion, to elucidate to students why economic theories are not general as conceptual constructs. By contrast, and in contrast to most economists of any persuasion, I think that economic theories become relevant as cultural processes in their respective historical context. And insofar as different historical contexts are connected to each other, economic theories become an essential component, not of the explanation, but of the evolution of historical phases of the modes of thought. In other words, I firmly believe that economics belongs to the sphere of cultural studies and of socio-political discourse. Its importance does not lie on what it says about the ‘economy, since the ‘economy’ itself is a rather elusive object, but how through economic language/jargon, the theories mediate concrete interests and political discourses. The objective of the pedagogical exercise should be to alert students to the non-general and specific mediation role of economics but, I believe, it should be made in such a way that students ought to be left to decide what economic theory to pick, reject or be indifferent to. Students should be brought to see the ideas of the lecturer, as well as those contained in the theories discussed, as points of view.

The agnostic route

I am not an agnostic in matters related to the material conditions of our existence, but I do not derive my views from a set of economic doctrines. Politics, newspapers, literature and my own experiences in different countries and in different linguistic settings play a far greater role. I am glad to see that I am not alone. Michio Morishima’s excellent books on the Japanese economy are methodologically very little related to the systemic use of economics as an interpretative discourse although the *culture* of economics does enter

into them. The fact that my own ideas about the material aspects of contemporary life were more or less determined prior to studying economics as a discipline, and that extra economic literature and observations/experiences continued to dominate afterwards, made it relatively easy to take, from a pedagogical viewpoint, the agnostic route once I became convinced that economics/ political economy are not the science of society, nor do they even contain fragments of that chimerical science.

There is one common thread that runs from Smith-Ricardo-Marx to Wicksell-Solow-Kaldor-Lucas, while, interestingly enough, leaving out people like Myrdal, Kalecki, Keynes, Galbraith, Sylos-Labini, Lowe. This is the one sector or representative firm/agent approach. In all those cases the single sector/single agent approach, has been formulated not as a first approximation but as way to tell a general story. If one takes this thread as the element linking what appear to be very different doctrines many dividing lines become less clear while Keynes' labeling of 19th century economic theories as 'classical', without much distinction between marginalists and ricardians, is not altogether wrong, indeed it is spot on. Hence I also believe that the Italo-Cantabrians' attempt to graft Keynes onto Ricardian economics is an arbitrary and artificial construct.

The fundamental problems in Classical economics are the same as in the neoclassical system: exclusive reliance on competition as the central feature of capitalism or of the 'economy', and the absence of money (Cartelier and Benetti, 1996). In the neoclassical case these problems stem from the construction of an ideal – non capitalist – world where, however, methodological individualism is thought to be the appropriate procedure to capture the immanent features of people's (agents) behavior. In the past it was thought that, if unimpeded by distortions and rigidities, individuals' immanent behavior will materialize in practice, thereby generating the desired perfectly competitive outcomes (Pareto did not believe in that however, and this is why he choose the fascist side in the political struggle, to day Olivier Blanchard still adheres to this fairy tale as shown in his article in *Libération* during the post-autistic movement among the students of economics in Paris²). The emptiness of the perfectly competitive General Equilibrium theory has compelled economists to retreat to partial equilibria. As Arnsperger and

² Here is Blanchard verbatim ("Défense de la science économique", *Libération*, 16/10/2000): "Un peu d'histoire de la pensée économique est utile ici. Il y a plus de deux cents ans, Adam Smith avait expliqué que, dans une économie de marché, les égoïsmes individuels se combinaient pour amener le meilleur résultat collectif possible. La proposition était tellement surprenante, et tellement forte de conséquences, qu'il était essentiel d'en comprendre la nature et les limites. Grâce à Walras au début du XXe siècle, puis à des économistes comme Arrow ou Debreu cinquante ans plus tard, et surtout grâce à un énorme effort d'abstraction et à des outils mathématiques puissants, les conditions du théorème d'Adam Smith furent clarifiées". So far so good except for the wrong amalgamation of Adam Smith with the Walrasian framework. Then we get served with the absurd belief that in practice economies can converge to the Walrasian ideal via Arrow Debreu: "Ayant clarifié les conditions nécessaires au théorème d'Adam Smith, la recherche s'est orientée presque entièrement sur ce qui se passe quand elles ne sont pas satisfaites. Pourquoi certains marchés fonctionnent mal, quel type d'institution il faudrait mettre en place pour améliorer leur fonctionnement. Et, à chaque étape, l'usage des mathématiques a été précieux, pour préciser, affiner les arguments".

Varoufakis have so convincingly argued, you do not have to take market clearing equilibrium as an attainable goal, provided you strive for any equilibrium outcome derived from the assumptions of methodological individualism. Within those parameters anything goes, depending upon the author's ability to fantasize.

In my view the Classical problems, of the same nature although pertaining to a different theoretical formulation, are more serious. This applies to Marx as well, at least to the Marx of Volume One, the faithful disciple of Ricardo. For the Classics did not aim at constructing a *mécanique sociale*, to use the term employed by Walras to describe his own endeavor. Smith, Ricardo and Marx believed that they were making the appropriate determinate abstractions. In other words, they thought that their theories were true in relation to the working of the economic system. They were not best case scenarios but rather reflected what the Classics and Marx believed were objective causalities operating in reality. They all rest on the following pre-modern, hence pre-Keynes dynamics, pointed out, unwittingly I suppose, by John Hicks:

There is no problem in the Original Model [*this how Hicks calls the Classical growth model, J.H.*] about the transmission of saving into investment for in that model there is no money. Indeed, there is hardly any exchange. One would be quite entitled to think of the landowners (or capitalists) into whose possession the harvest comes just piling it up in their store-houses; then doling it out to those whom they employ, productively or unproductively. Those employed are thus paid for their services, and that closes the matter as far as they are concerned. If they are paid in money, then spend the money on 'corn' consumption, the money just comes back where it was without making any difference. There does not seem to be any harm in leaving it out³

That is precisely the issue with the moneyless corn model, whether formulated directly in terms of corn, or indirectly in terms of labor values. And the problem is fully reproduced in Marx. Volume One precisely where Marx achieves the most coherent expression of his conception of capitalism, namely in chapter 25 of *Capital* Volume One. Let us look more closely:

Marx believed very strongly in the Classical, especially Ricardian, tenet according to which a lower wage rate is accompanied by a higher rate of profit and, thus, by a higher rate of capital accumulation. Consequently the transformation of hitherto subsistence peasants into proletarians will enable the stronger forces of production of the capitalist core to forge ahead thereby claiming the space held by urban petty commodity producers. Yet a stage will be reached where the hinterland will no longer have enough people to supply cheap labor. At this point wages will rise and accumulation will subside bringing a decline in the rate of profits. Operating under competitive conditions, capitalists cannot increase prices in the wake of a general rise in wages. They have only one route left open for salvation: labor saving technical change which causes technological unemployment. Not all firms will succeed in implementing the change, so that their bankruptcies will throw onto the labor market additional throngs, not of peasants but, this time, of redundant workers and of bankrupt proprietors. The restoration of the 'reserve army' via unemployment will reduce the general wage rate and accumulation will pick up again on an expanded technical basis. The rates of profits and

³ John Hicks (1985) Chapter 4, pp.34-5.

of accumulation recover but, in the long run, from cycle to cycle, the process of labor saving technical change will increase the capitalist intensity of production generating a secular decline in the rate of profit from which, now, there is no cyclical escape. The economy is relentlessly prodded by the iron clad rule of competition which is the primary motive for capitalists to invest as much as they can:

[T]he development of capitalist production makes it constantly necessary to keep increasing the amount of the capital laid out in a given industrial undertaking, and competition makes the immanent laws of capitalist production to be felt by each individual capitalist, as external coercive laws. It compels him to keep constantly extending his capital, in order to preserve it, but extend it he cannot, except by means of progressive accumulation (Marx, 1868, in Marx, 1967, p. 555).

Unless one believes in the automatic investment of the entire surplus, Marx's story need not hold at all. It is indeed possible to believe in such an automatic mechanism only if the economy is made of corn. Why should the capitalist farmers pile up (save) corn in their silos without plowing it back into the field? Except for a normal precautionary quantity, there is no reason for them to refrain from investing all the corn left over and above consumption. But when the economy is slightly more complicated, firms may simply not be able to invest their surplus. It is enough to introduce a separation between consumption goods and machinery, thereby transforming the economy into a monetary one, that savings do not imply investment and accumulation. Thus if the appearance of cheap labor does reduce the average wage rate, the rate of profit may actually fall because of the formation of unused capacity in the consumption goods sector following the reduction in the demand for consumption goods induced by that very decline in the wage rate. Unused capacity in the consumption good sector will generate excess capacity in the machine sector as well. Indeed orders for capital goods coming from the consumption goods sector will decline with negative effects on the level of production in the machine sector. If this phenomena can occur in a very simple model, imagine how much greater would this probability be in a real economy with millions of mostly heterogeneous products. At this point the economy is simply mired in the short period because it has no long term path to hang on to, unless one is forcibly superimposed upon it. The moment there are no long term paths, the economist must become a historian versed in the politics, institutions, culture and in the social classes and groups of a particular country and/or of a particular period.

Notice that in relation to Marx, if capitalism's dynamics does not depend on endogenous systemic laws governing accumulation, it is quite legitimate to invert the Marxian concern with the economic base and to consider socio-political and power relations as the main determinant of the pattern of economic activity. And this is indeed my position, I think shared also by large sections of the US institutionalists such as Galbraith and the authors of the famous study commissioned in the late 1930s on the structure of the US economy. Given the inability of theories to tell a set of consistent stories the accusation that the US institutionalists of the 1930s had facts in search of a theory is misplaced. The facts of the American institutionalists arise from a historical analysis of the US economy and therefore contain a conceptual interpretation, most of which, in my view, stood the test of time.

Mutatis mutandis, the same sort of questions arise in Wicksellian capital theory as we know from the contributions of the Italian Sraffians, Pierangelo Garegnani and Luigi Pasinetti, whereas the neoclassical Alan Kirman (1992) has proven how untenable the representative (sole) agent model is. In short, when theories are being generalized they collapse into the single sector/single agent special cases which is the opposite of generalization. And their stories fall apart.

The theory of no theory: Keynes

Neither Keynes' nor Kalecki's theories belong to the groups outlined above because they did not attempt to develop a long period vision of the economy.

I do not think that Keynes was convinced about the possibility of building a positive theory of how the economy works. Instead he was extremely clear how capitalism did not work, that is how it did not generate internally investment stimuli. To my mind, and considering that most of Keynes' theoretical writings are incomprehensible. Hence I base my views on Keynes on chapters or parts of the *General Theory* that I think I have understood 12, 16 – but only the first two pages and the last section – the middle part, where marginal efficiency of capital and roundaboutness of production are tossed into the ring, is an unintelligible waffle – then chapter 19 on wages, and the last 3 chapters respectively on the trade cycle, on mercantilism and on the social philosophy of the *General Theory*. If students go through them – luckily the Marxist website has put all of the *GT* online – they will escape the mechanicism of the postwar Keynesians and the trap of believing in a set of Keynesian policy tools.

Briefly, chapter 12 explains why the future cannot be known and, therefore, investment decisions can not be determined with any conceptual accuracy. The chapter illustrates very well why investment is a truly exogenous variable. With this chapter there is no need to plunge into the confusion caused by the whole question of the marginal efficiency of investment schedule. The limits to any level of investment can be derived ex ante by using Kalecki's 1937 principle of increasing risk paper which has the merit of building upon Sraffa 1926 article and gives a clear cut point where investment cannot go any further. The importance of Kalecki's essay is twofold. It is closely related to Sraffa's article since a horizontal marginal efficiency of investment curve is adopted running above the given rate of interest. Obviously if it were not for the increasing risk, the two curves will never cross and that does the job of determining the limits to investment. The second point is that in less than a page Kalecki explains why changes in the rate of interest do not involve a change in capital intensity. Importantly, the 1960s Italo-Cantabrian critiques of capital theory have conceded that neoclassical substitution occurs at the level of the firm, where prices are given, but not in the aggregate where prices must adjust. Kalecki, simply by not postulating long run equilibrium, argues that the relationship between the rate of interest and capital intensity does not operate also at the entrepreneur's level. Thus by reading chapter 12 + Kalecki 1937 students understand the exogenous nature of investment, get rid of all the production function stories also at the micro-level without falling into the trivial Keynesian policy trap. Chapter 16, only the limited parts which are readable, is a refutation of Ramsey but also of Classical economics since it there that Keynes states that 'not having dinner', i. e. an act of saving, does not necessarily entail an act of investment. This means that there is no mechanism

taking by economic means the system towards the long run. Furthermore an analogy can be drawn between the negative impact of not having dinner – i.e the opposite of Smith's dictum that every frugal person is a public benefactor, a view shared also by Marx if instead of public benefactor we write that every frugal person enhances capital accumulation – and a fall in wages. Here students can immediately move on and read Kalecki's "Money and Real Wages" (1939) – which shows how a fall in wages under perfect competition will not eliminate unemployment, while under oligopolistic conditions such a fall will actually increase unemployment. The reading of "Money and Real Wages" is essential in order to make sense of the many cases discussed in chapter 19 where, in the end, Keynes comes to the conclusion that a fall in wages is negative for employment. The outcome of this didactic exercise is to make the case that there are no long run forces except as a chain of short period situations.

The Policy Trap

Albeit in a convoluted way Keynes makes a point that institutionalists, from Charles Connan to Thorstein Veblen, to Galbraith saw all along: economic laws do not really exist, they rather are, as Sylos Labini put it, an optical illusion. At the very most there are rules which depend upon the hierarchy of power relations and on the degree of their stability. Magdoff and Sweezy in an article called "Keynesianism: Illusions and Delusions" (*Monthly Review*, April 1977) wrote that Keynes was an idealist who, in arguing for the socialization of investment, believed that the power of ideas in a given class framework would overcome the power of capitalists to defend their own interests. By 1940, however, he gave up on the possibility of applying his principles. With farsightedness he wrote that it would be politically impossible for a capitalist democracy to reach that level of expenditure required to prove and validate his case, except, he added, under war conditions. End of story as far as Keynesian policies are concerned except for the impact of military Keynesianism which had been very well explained by Kalecki and Baran and Sweezy throughout the 1960s.

The interest in policy discussions lies in the way they mirror fears and beliefs, so that it is possible to ascertain how these change over time. Thus after 1945 the main fear was whether economy would be struck by a new Depression and the debates were about that eventuality rather than about adjustments to long run full employment. Between 1949 and 1971 the leaders of US capitalism did come up with the solution through a military spending and, wow!, high employment was back and the belief was that the economy seemed to be naturally tending towards full employment. This is the essence of both the Kaldor non-Keynesian growth fable – dramatically depending upon the corn model – and the Solow one. They both *believed* in the system's natural tendency towards full employment, they both started from that assumption. Hence Kalecki's ironical remark that growth theories discuss full employment by assuming it. The collapse of Keynesian economics and the rise of Rational Expectations can be studied in the same vein. The role of economic analysis is to day the same as that of theology in the period going from Giordano Bruno and Galileo to the end of the 30 Year War. It is the lexicon through which economic interests and politics interrelate. Thus once holistic theories are shown to be fragile it is possible to focus on the theological role and function of the respective positions. And in this context the importance of Keynes consists in what it excludes from economics and his 'discourse' about why we cannot know, which is

tantamount to saying that the forces operating on the economy cannot be grasped from within the framework of economic theorizing. The tinkering apparatus, from which policies are derived, is largely inconsequential.

Preliminary conclusions

In didactic terms the above form of reasoning means emphasizing the factors that make existing economic theories collapse. Given that the problems are quite common, a logical thread of sequences can be established between the theories yielding a path which students understand very well.

- In the Classical theories outside the corn model there is obscurity and conceptual chaos. This is true also in relation to its variant in terms of the labor theory of value. The shortcomings are not gauged in relation to the otiose ‘transformation problem’ rather in terms of macrodynamics of the classics, especially of Marx’s theory of trade cycle, where the question of the Traverse in its effective demand dimension surfaces as a dominant feature as soon as we reason in terms of a simple two sector approach with money in it.
- Walrasian theory if extended to include accumulation becomes Wicksellian and falls apart for the well known observations made, in the wake of Sraffa, by Garegnani, Pasinetti, Schefold. To become Wicksellian means also reverting back to the single sector one good model. If we stay within the General Equilibrium framework we are either confined to the Temporary Equilibrium framework of Hicks’ *Value and Capital* (1939) or to the Intertemporal Equilibrium of Arrow-Debreu. Both can be unpacked by the critique of gross substitutability contained in what has become known as the Debreu-Mantel-Sonnenschein theorem, which can be very easily explained in simple logic to second year students (see Guerrien 2004).
- Solow growth theory ceases to be consistent for the same reasons that Wicksellian capital theory is inconsistent.
- Kaldor growth and distribution theory ceases to be consistent for the same reasons that that the corn model outside its single product framework ceases to be consistent. Here there is a very beautiful paper by Geoff Harcourt who, already in 1963, has shown that Kaldor’s reliance on the Marshallian representative firm is an incorrect procedure since in a two firm/two sector framework the two firms cannot behave identically.
- Rational expectations theory ceases to be valid because the representative agent represents nobody, exactly as the representative firm represents no firm, exactly as the single sector corn economy represents no economy.

Hence we simply do not know. We can only say that prices will not be determined competitively, as understood by the US institutionalists and by Sylos-Labini and Kalecki, on which there ample historical evidence (Sylos Labini, 1993; Lee, 1998), that output, unless pushed by external forces, will seldom reach full capacity, etc. But how actual processes happen depends upon the historical-political-social circumstances, which do not find a place in the main body of economic writings of just about every sect of the

theoretical spectrum in economics. Economic theories operate fundamentally as systems of beliefs with a *savoir* but not with a *connaissance*, to borrow from Foucault, because it is virtually impossible to treat economic variables in isolation and in the abstract. Those constructed variables are not like minerals that can be taken out of the rocks and cut, analyzed, and used industrially. They are, instead, inseparable from the social 'rocks'. Hence economic issues as such do not exist in a manner that can be treated separately from politics, philosophy, and history.

Institutional pluralism

It is evident that it would be impossible to pursue this kind of approach in mainstream economic departments for a simple and prosaic reason which, to day, is more relevant than the old ideological one although it derives from it. Economics departments, increasingly absorbed or fragmented within Business Schools, tend to use textbooks and on this basis streamline courses from the first to the third and, in the USA and Canada, fourth year. These are sequences of the same program and the textbooks are virtually the same except for the amount of formalism. This process is happening everywhere. In Italy even in the most non-neoclassical departments the micro-macro courses are taught by using Blanchard, Varian, etc. The economics course curricula in most universities are set, I would say naturally not even by a priori design, in accordance with the exigencies of the multinational publishing companies. Courses like that outline above, are at best allowed as esoteric elective stuff in the final year or, worse still, at the Graduate level. It follows that most students will never come across that *problématique*. Thus philosophical pluralism requires the establishment of institutional pluralism in the form of distinct units/departments of political economy.

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Appendix

Welcome to Students in Ecop 2001, First Semester 2005

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Joan Robinson (1903-1983)⁴, one the most perceptive thinkers in economics after 1945, made a point which is very relevant to the philosophy of the course you are about to be involved in. She once stated that people should learn economics in order not to be fooled by economists. Why is that so? Because economic ideas, far from telling verifiable stories about how economies work, are a set of very special and ad hoc formulations. Throughout this course, beginning with the first week of lectures, we will investigate the special case nature of the theories. In today's economic courses the discipline is presented as a tool kit which is opened and used when needed, but those tools simply do not exist. Indeed traditional mainstream economics known as Neoclassical theory – where the main focus is the determination of a set of market clearing prices ensuring, via perfect competition, the full utilization of all the resources from raw materials to labor – recognizes the emptiness of its own tool kit when it moves from the basic principles to a more sophisticated approach. We will discuss all this as of week 5 in the lecture program. Yet, by judging the content of most contemporary textbooks⁵, courses keep being run as if the first principles are just fine.

Why is this so? Why is there such resilience, at least in the low brow textbooks which are being fed to students, to recognize the drastic failure of mainstream theory – as well as , in my view, of most if not all deductive economic theories – to get a handle on the very object of its inquiry? My opinion is that mainstream economics plays not a cognitive role but fundamentally a theological function. Exactly as in the centuries of Nicolaus Copernicus (1473-1543)⁶ and of Galileo Galilei (1564-1642)⁷ when theology and religious discourse were the central

⁴ See: <http://cepa.newschool.edu/het/profiles/robinson.htm>

⁵ A notable exception is the textbook by Yanis Varoufakis *Foundation of Economics* (London: Routledge, 1998) directed to mainstream courses. Some of its chapters will be used in the tutorial program.

⁶ Polish astronomer. Famous for writing *De Revolutionibus Orbium Coelestium* (translated as *On the Revolutions of the Heavenly Spheres*), the book which started modern astronomy, where the Sun was put at the center of the system enabling therefore the development of both Kepler's theory of the Earth's orbit around the Sun and Newton's law of gravity.

⁷ Italian mathematician, physicist, and astronomer. Held to be the founder, with Copernicus, of modern scientific thought. His work *Dialogo dei massimi sistemi* (translated as *Dialogue Concerning the Two Chief World Systems, Ptolemaic & Copernican*), where he defended Copernicus' views, made him clash with the Roman Catholic church which brought him to trial before the Inquisition, compelling him, under the threat of torture, to renounce all his ideas regarding the Earth as a moving body orbiting the Sun. Earlier, in 1600, the Inquisition had sentenced and burnt on the stake in Rome the Italian philosopher Giordano Bruno (1548-1600) who, while supporting Copernicus, held his own original and advanced views about knowledge. In particular Bruno rejected the existence of absolute truth and maintained that one's view of the world depends on the position in space and time from which it is observed. There can be as many views

conduit for debates ranging from science to politics, today's mainstream economics is the core body of thought around which social, political, and economic questions are discussed. This role of mainstream economics has got nothing to do with the flimsy explanatory power of the theories contained in textbooks. It has, instead, a lot to do with the perception that the principles and the axioms on which the theory of market driven equilibrium is based reflect the possessive individualism ruling in bourgeois societies⁸. Philosophically such contention is at the same time correct and misguided. It is correct in respect to the fact that Neoclassical economics is based on methodological individualism with the market being the only form of interaction between individuals or agents. But it is also misguided because the market of Neoclassical theory is, as we shall see in a very simple manner, the type of ideal market best suited for a centrally planned communist economy!!⁹ In the end it is the first aspect, methodological individualism, which has prevailed and has become enshrined in every basic economic course which students take to then proceed to other business or law related disciplines.

The above remarks would suffice by themselves to justify Joan Robinson's observation about knowing economics in order not to be fooled by its practitioners. In addition to that I should add that the understanding of issues comes from the comparison and confrontation of alternative intellectual constructions involving different paradigms. For instance it would be impossible to understand what Neoclassical economics is about without knowing the questions about value and distribution raised by the Classical economists and, in particular, by David Ricardo and Karl Marx. More broadly, when we hear, day and day out, that enhancing competition should be the goal of institutions and of policy makers, it becomes quite important to understand why the idea of competition, although specified differently, played such a pivotal role in all analytical economic theories, whether Smithian, Ricardian, Marxian, or Neoclassical. Intellectual clarity and honesty require therefore that the importance assigned to competition, both as a process and as a normative goal, be questioned.¹⁰ This means putting the above mentioned theories in their historical context since no all-encompassing theory can possibly exist in matters regarding the economic evolution of societies.

The journey through the analytical constructions of the theories, and the historically specific framework in which these purely points of view were formulated and meant to apply, is what this course is about.

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as number of positions. I think that, methodologically, this approach is particularly well suited to economics, political economy and all the social disciplines where analyses are points of view like in religion, moral philosophy, and politics.

⁸ See: C.B. Macpherson, *The Political Theory of Possessive Individualism: Hobbes to Locke*, Oxford: Oxford University Press, 1962.

⁹ This is exactly what a leading Neoclassical economist, Oskar Lange, has argued all along. See his : "[On the Economic Theory of Socialism: Part One](#)", *The Review of Economic Studies*, Vol. 4, No. 1. (Oct., 1936), pp. 53-71; and "[On the Economic Theory of Socialism: Part Two](#)", *The Review of Economic Studies*, Vol. 4, No. 2. (Feb., 1937), pp. 123-142.

¹⁰ Karl Polany (1886-1964) challenged the universal dimension given to competition capitalism in his path-breaking book *The Great Transformation* published in 1944.

