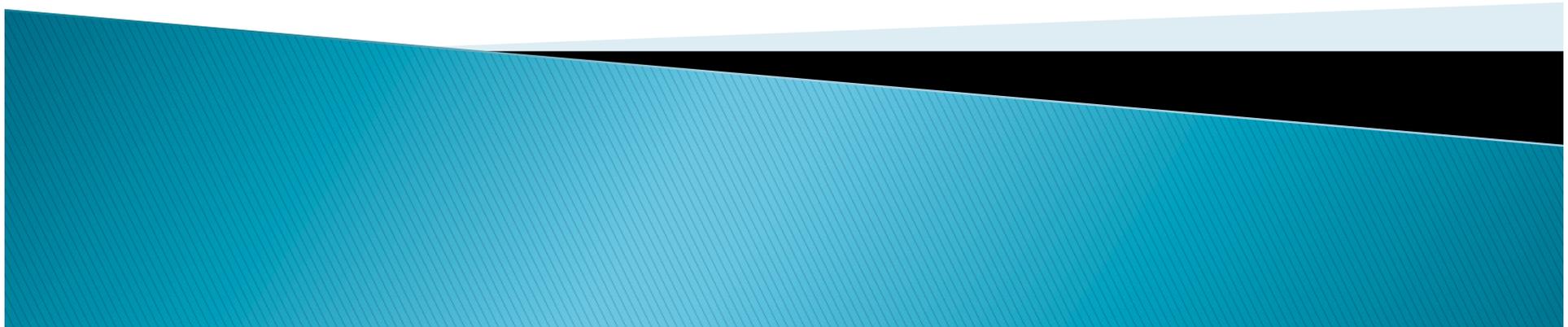


For a modest and heterodox mainstream economics

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Annual Conference of the European Association for
Evolutionary Political Economy (EAEPE),
Vienna, 27–30 October, 2011



Basic claim

The 2008 global financial crisis represented a major set back

1. for neoliberal ideology and
2. for a mistaken, hypothetical–deductive, neoclassical economics.

This crisis opened room for

- ▶ –a new mainstream economic policymaking and
- ▶ for a modest heterodox mainstream economics.



1. Neoliberalism

- ▶ – the hegemonic ideology in the 30 Neoliberal Years of Capitalism (1979–008)
- ▶ – a radical economic liberalism
- ▶ – while liberalism was the ideology of large bourgeois middle class fighting against an absolute state and an military and religious oligarchy, while neoliberalism is the ideology of a small coalition of rentier capitalist and professional financiers against a democratic state and against the workers, the poor and most of the professional class.



2. Neoclassical economics

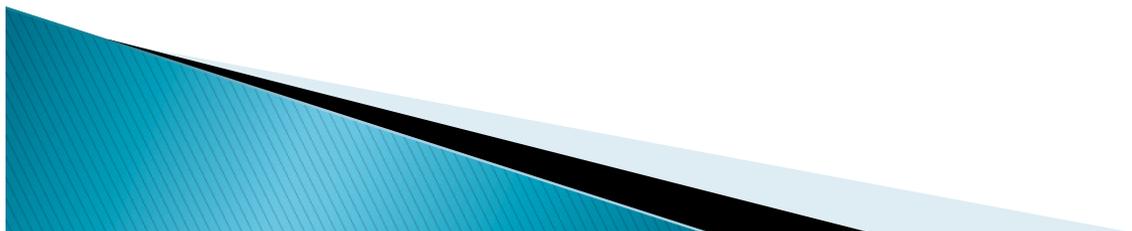
was as a school of economics that appeared in 1870s as a reaction against the inferences made by Marx of the classical labor theory of value.

It is based on marginalist theory of labor and adopts a fully hypothetic–deductive methods, where the facts are just a nuisance, are “market failures”.



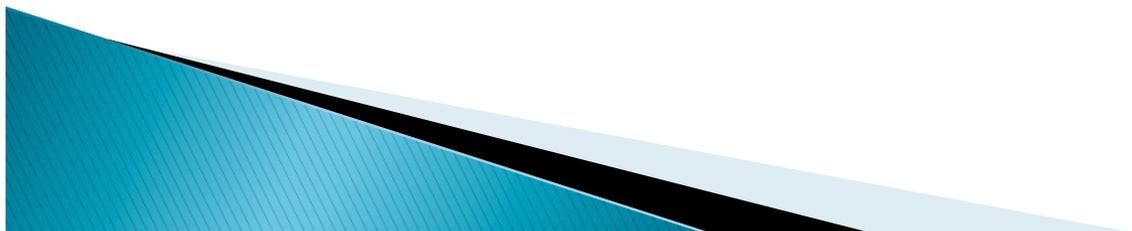
The core of neoclassical economics is represented by

- ▶ -the general equilibrium model
- ▶ -rational expectations' macroeconomics, and
- ▶ -Solow's and endogenous growth modes



Neoclassical economics uses as criterion of truth

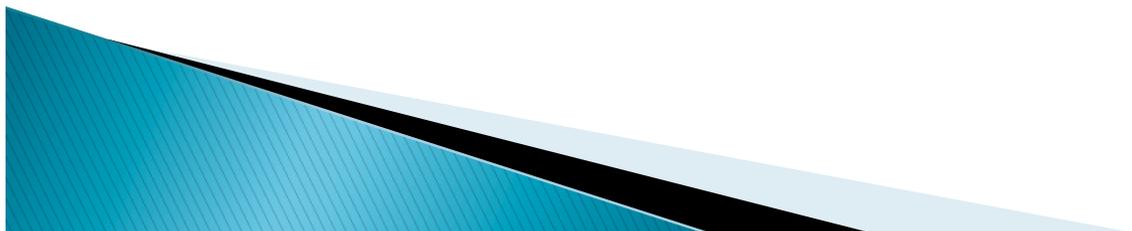
- ▶ logical consistency
- ▶ (the criterion for methodological sciences).
- ▶ instead of
- ▶ adequacy to observed reality
- ▶ (the adequate criterion for substantive sciences).



Neoclassical economics is an arrogant theory

that supposes

- ▶ to be scientific because it uses extensive mathematics,
- ▶ What is possible due to the hypothetical, axioms based method that it uses,
- ▶ but leads to the construction of idealist or Platonist castles in the air.



Intead, economics is a modest
social science

based on historical or evolutionary
models,

in which

Mathematics may only be extensively used on
the complementary sciences like

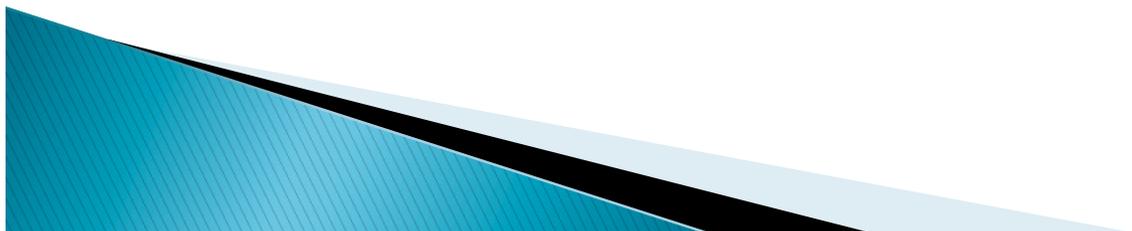
- ▶ -econometrics
- ▶ -and decision-making science.

- ▶ It makes no sense to use high mathematics in
historic or evolutionary models.



The true core of economics or of political economy is the historical–deductive or evolutionary economics developed by

- ▶ the mercantilist,
- ▶ the classical,
- ▶ the institutionalist,
- ▶ the Keynesian,
- ▶ the Schumpeterian
- ▶ and the the structuralist economists.



Mainstream neoclassical economics was a deviation that economics suffered

because it adopted a hypothetical–deductive method that is only applicable to methodological sciences, not to substantive social sciences.

- ▶ Or because it is based on axioms like the homo economicus and rational expectations that allow for complex mathematical treatment that just mystifies reality



Neoclassical economics was a successful deviation

that underwent political economy as it changed from the labor theory to the marginalist theory of value.

- ▶ Yet, the deviation was successful because a genius (Alfred Marshall) developed a complementary science that was mistakenly viewed as a substitute for historical-deductive or evolutionary classical economics.



Marshall's complementary science – decision-making theory – (wrongly called “microeconomics”)

is a methodological science, to which the hypothetical-deductive method is legitimate.

It is the beginning of decision making science that was later “completed” by

–game theory

–behavioral theory of economic decision-making.



If economics was the science of choice,

- ▶ it would be a methodological science, and the hypothetic deductive method would be legitimate.
- ▶ But economics or political economy is the science of economic systems, to which only an empirical or historical–deductive method, that draws modest models out of imprecise regularities and tendencies empirically observed, is legitimated.



Deregulating and liberalizing non-policies

- ▶ led capitalism to two major financial crises:
- ▶ 1. The 1929 crash and the 1930s Great Depression
- ▶ 2. The 2008 crash and the present Great Depression



Yet, neoclassical economics is not dead

After the 1929 crash, it became mainstream in the 1970s despite

- ▶ -its incapacity to explain and predict economic systems



Its survival strategy was achieved through

the inclusion in the mainstream of non consistent theories

like game theory and behaviorist experimental economics

This survival strategy led Colander (2000) to say that it had turned irrelevant in so far as it was enveloped in a huge relevant economics.

–This is a mistake. It remains dominant and authoritarian.



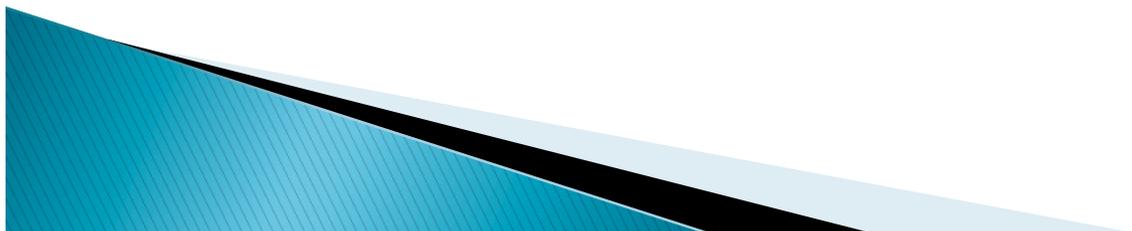
Besides wrong, neoclassical economics is essentially ideological

- ▶ Based on the general equilibrium and rational expectations, it is the “scientific”, mathematical, justification of neoliberalism and of financierization.



Before 2008, the critique of neoclassical economics was ineffective because

- ▶ – it tried to show that it is inconsistent (Cambridge debate, Sraffa's alternative), but the results are mixed;
- ▶ – it tried to show non empirical adequacy, but empirical debate is always non-conclusive.



The critique must be methodological

Must be based on the existence of two types of science:

1. Substantive sciences, subdivided into Natural Sciences and Social Sciences

–that have an object;

2. Methodological Sciences

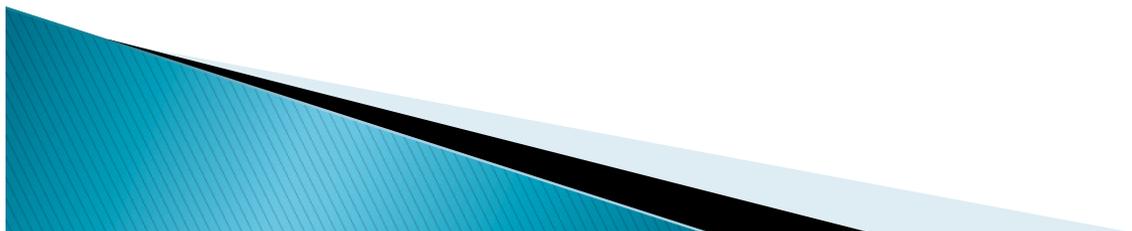
–that have no object;

The former are supposed to adopt the historical–deductive, the later the hypothetical–deductive method.



The methodological critique of the neoclassical core is associated with

- ▶ -Keynes' and Minsk's concept of uncertainty
- ▶ -Keynes' animal spirits
- ▶ -Paul Davidson's non ergodic character of economic processes.



Branches that must be kept

- ▶ Marshallian microeconomics
- ▶ Econometrics
- ▶ **Applied Economics**
- ▶ **Policymaking and policy analysis**

The later two are often competent activities although wrongly supposing that have as assumption the neoclassical core.



The alternative must be

- ▶ **Modest**
- ▶ Because the historical–deductive method does not allow for complete, closed and mathematical models
- ▶ **Heterodox**
- ▶ Because all orthodoxies, neoclassical, Marxist, Keynesian, are necessarily wrong
- ▶ **Plural**
- ▶ Because we need different theories to understand economic systems that are highly complex.



Besides historical–deductive, the method must be

- ▶ **Dialectical and structural**
- ▶ Because the just cause and effect scientific method is not sufficient to explain economic relations that besides complex are contradictory, dialectical themselves.
- ▶ **Hermeneutic**
- ▶ Because, although economics is a science, it is also one of the humanities.
- ▶ **Pragmatic**
- ▶ Because the adequacy to reality criterion of truth is often not viable, but the prediction and the what works criteria are always important and necessary.



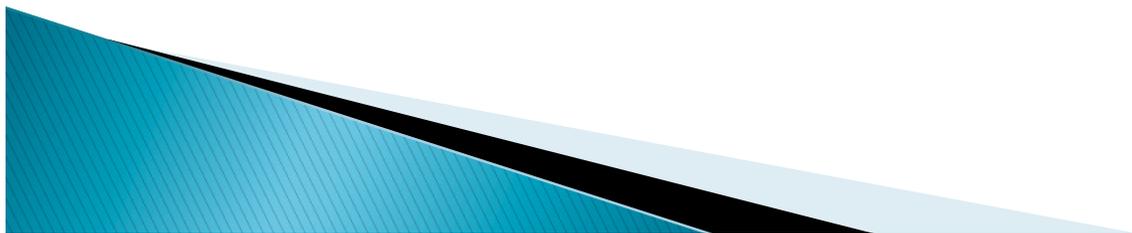
We don't have to begin from scratch to build the theoretical alternative

- ▶ Classical economists among which Marx and Built a historical–deductive development economics or political economy (to me synonyms),
- ▶ while
- ▶ Keynes and Kalecki found a historical–deductive macroeconomics
- ▶ Schumpeter gave a major contribution to evolutionary economics
- ▶ Several economists are today building a structuralist development macroeconomics.



Structuralist–Keynesian Economics

- ▶ – is a possible name of alternative economics to become mainstream.
- ▶ That, besides historical, is supposed to be
 - ▶ –modest
 - ▶ –heterodox
 - ▶ –dialectical
 - ▶ –structural
 - ▶ –hermeneutic
 - ▶ –pragmatic



Turning mainstream is possible

- ▶ – in applied economics and in policymaking change is already taking place
- ▶ –in the universities, it will take more time, because
 - ▶ 1.academics are self-referred,
 - ▶ 2.they believe that they need mathematics to be “scientific”.



But being mainstream requires

- ▶ 1. To be plural in theoretical terms
- ▶ 2. To be moderate in political–ideological terms
- ▶ 3. To offer economic policies that make sense to businessmen, the middle classes, and to workers
 - ▶ in far as
 - ▶ –they allow for satisfying profit rates combined with increasing wages
 - ▶ –they promote growth with stability.

