

WHY DO ORTHODOX MAKE SO MANY MISTAKES?

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Because they adopt scientific methods as mathematics to justify the laissez faire, the origin of countless crises

The great crisis of 2008 was also the crisis of the orthodox or neoclassical economic theory, prevailing since the 1980s it was the crisis of the general equilibrium theory and of neoclassical macroeconomics based on rational expectations. This was not a surprising failure. Both theories, taught in Ph.D. programs of major universities, have a scientific appearance, because the hypothetical-deductive method employed to develop them allows the overuse of mathematics. Actually, they are castles in the air that have a certain logical consistency but are not based on real economic systems. In addition to having no practical usefulness, those theories present high risks. It was those mathematical constructions that legitimated the main cause of the global financial crisis: market deregulation.

Neoclassical orthodoxy is dogmatic and disconnected from reality because it uses a method based on axioms instead of generalizing the experience of market behavior. Although neoclassical microeconomics - except for the general equilibrium model - also uses the hypothetical-deductive method, it is very useful because, together with the game theory, it constitutes an auxiliary methodological science: the economic theory of decision-making. Yet the general equilibrium theory, the rational expectations macroeconomics, and the endogenous growth models are orthodox theories that, during periods of great development, did not guide the economic policy of the countries in which they were formulated. In the eighteenth-century England, this role was played by the mercantilist economic theory in Bismarck's Germany, by the historical school in the United States, in the first half of the twentieth century, by the American institutionalist theory in Japan and in all the countries that

industrialized in the twentieth century, by development economics and by the developmentalist strategy and, finally, in the rich countries, during the "30 golden years of capitalism" (1945-75), the economic policy was inspired by Keynesian economics.

To legitimize itself, orthodoxy tries to oppose the policy of fiscal and exchange rate irresponsibility that is so common in poorly governed countries - but this does not make it true. Nor does it justify the idea that it was the only alternative to economic populism. The legend that surrounds it is that its seriousness and severeness would guarantee macroeconomic stability to the countries applying it. Yet, the much more frequent financial crises led to the dismissal of this idea. As for developing countries, the instability results from orthodoxy's support for current account deficits (that is, exchange rate populism) as for rich countries, from the assumption of self-regulated markets and from their deliberate deregulation.

A few months ago Paul Krugman asked "why did the economists make so many mistakes?". The main reason was that "mainstream" economists adopted the hypothetical-deductive method, which is specific to methodological sciences such as mathematics, statistics, and the economic theory of decision-making, instead of using the historical or empirical method as a basis for generalizing and formulating poorly mathematical but realistic theories, as it is the case with Keynesian theory. This enabled them to mathematize the economic theory, to use differential and integral calculus, and, thus, to give it a scientific appearance, but, with this mathematical look the orthodox theory was justifying the old *laissez faire* that was always at the origin of countless crises.