Supply and Demand of Economic Theory

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Among previous writers in this journal, Daniel Fusfeld has emphasized the societal context of research in economics: "When knowledge affects society and society affects knowledge, it is not possible for science to have a life on its own unaffected by the uses to which it is put. However positive the intent of the individual scientist may be, the search for knowledge has inherent normative elements" (Fusfeld 1990). These normative or political elements of economics represent a challenge to our discussion about the status of economics as a science. For instance, neoclassical economics since the 1870s, with its positivist approach can largely be described as an attempt to "purify" economics from its political elements. We may now ask whether this attempt has been a success or not. Should we perhaps return to the old label of "political economy"?

If economic research is carried out in some social context, one can ask what kind of relationships exist between economists and people "out there" in society, e.g. politicians, business leaders, bureaucrats, labor unions representatives and leaders of non-governmental organizations. As a starting point, I will refer to Keynes, who argues that "the ideas of economists and political philosophers... are more important than is commonly understood... Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist" (quotation from Fusfeld 1986, p. ix). One possibility, then, is that there is a relationship of slavery between defunct economists and present-day economists essentially repeating the old arguments on the one hand, and "practical men", on the other. As examples one may think of Adam Smith's writings in the eighteenth century on the division of labor, specialization and the wonderful functioning of the market with "the invisible hand". This is certainly part of the intellectual heritage not only of economists, but also of political actors and actors in the market place.

While the one-directional idea of slavery is an interesting part of the whole, I will instead emphasize the mutual interdependence of various groups of economists and various groups of other actors in society, i.e. practical men. Indicating my own kind of slavery (or perhaps being opportunistic in relation to my expected readership), I will use the metaphor of supply and demand in discussing these relationships. Economists supply conceptual frameworks, theories and methods. They also act on the demand side, arguing that some theories are more useful, scientific etc. than others. In addition, we have practical men on the demand side, regarding some theories as more useful or desirable than others. It is also possible to think of politicians, business leaders or NGO representatives who are unhappy with the present state of economic science and who point to a need for, i.e. express a demand for, a "new" economics. To the extent that the institutional arrangements and the rules of the game permit, some economists may try to respond to such demands for new concepts and theories.

The Political Element

Among economists taking an interest in the political element of economic science, Nobel prizewinner Gunnar Myrdal is perhaps the best known. His first book, published in Swedish in 1930, became available to the English-speaking world in 1953 under the title The Political Element in the Development of Economic Theory. While writing this first book in 1929, Myrdal still believed in a value-free economics, a belief which he abandoned and criticized in Value in Social Theory (1958) and Objectivity in Social Research (1969). Myrdal's position is best summarized in his own words:

"Valuations are always with us. Disinterested research there has never been and can never be. Prior to answers there must be questions. There can be no view except from a viewpoint. In the questions raised and viewpoint chosen, valuations are implied.

Our valuations determine our approaches to a problem, the definition of our concepts, the choice of models, the selection of our observations, the presentation of our conclusions - in fact the whole pursuit of a study
from beginning to end. If we remain unaware of the valuational basis to our research, this implies that we proceed to reason with one premise missing, which implies an indeterminateness that opens the door for biases.... In this context I have argued for, and in my own research from An American Dilemma onward have tried to observe, the necessity in any scientific undertaking of stating, clearly and explicitly, the value premises that are instrumental." (Myrdal 1978, p. 778-9)

Judging from Myrdal's arguments, then, economics is always political economics. There are political or "valuational" elements in every choice we make as scholars, and the least we can do is to try to declare what some of these values are. The fact that it is impossible to make a complete declaration of one's values should not prevent us from trying to be open-minded in this respect. Economists who have become accustomed to the idea that they are scientists in some sense of value neutrality and who have succeeded to some extent in convincing their public (i.e. a segment of the consumers of economic theory) about this neutrality will, of course, be reluctant to make such open declarations. Their power in relation to some segments of "practical men" may be at stake. And some powerful groups of actors demanding specific kinds of economic theory (which perhaps legitimize the current behavior of those actors) may not appreciate such an open attitude.

So, this issue of whether values should be declared openly becomes largely a matter of ethics within the economist's profession and of ideas about our role in a democratic society. In my own case, I am convinced that movements in the direction suggested by Myrdal represent a step forward. Our work as economists is made more rather than less "scientific" by such attempts to declare the valuational basis for it.

In some situations, the economist or other analyst should also try to be many-sided with respect to values or ideology. When there is known to be a conflict in society with groups involved who have qualitatively different ideas of a public interest, and the economist steps in to carry out a study as a basis for political decision making, then he or she will do a better job by illuminating the decision situation with its conflicts, suggesting conclusions that are conditional on possible valuational standpoints, rather than unanimous (Söderbaum 1987). The practice of cost-benefit analysis is one example of an approach that relies on unanimous conclusions. A specific set of valuational rules is suggested as being correct, and it is unrealistically assumed that all citizens accept that specific idea of correct resource allocation or a social objective function (cf. Sagoff 1988).

Institutionalism

Having argued that the perspective chosen should be openly declared, I will, like Gunnar Myrdal (in his writings from the 1950s onwards), point in the direction of institutionalism. It should be noted, however, that there may be some difference between the European institutionalism of scholars like Gunnar Myrdal and K. William Kapp (cf. Myrdal 1978, Kapp 1976) and institutionalists in the United States. Myrdal himself thought that the early American institutionalists he met - he explicitly mentions a long conversation with Mitchell in the fall of 1929 - did not understand the importance of the value issue in economics (Myrdal 1973, p. 7)

Just as there are (largely stimulating) differences within a school of thought, such as neoclassical economics, there are systematic differences in perspective and focus between neoclassical economics and Austrian economics, between neoclassical economics and institutionalism or between institutionalism and Marxian economics. As already indicated, the fact that one person develops into and sees himself as an institutionalist, while another person becomes a neoclassical economist, is not only a matter of scientific judgement in some objective sense. Various subjective, ethical, ideological (in a broad sense) and political elements are also involved. Each scholar is educated within a social and institutional context, where, as we all know, power relationships are important. For instance, those who want to survive as unorthodox economists soon realize that they have to get organized with other similarly inclined scholars to arrange networks or conferences, publish conference volumes, journals etc.

An attempt will be made here to describe briefly some of the differences between neoclassical economics and institutionalism. Such differences are often a matter of degree and tendency, rather than very clear-cut. While neoclassical economics tends to be reductionist and mechanistic, institutional economics is more holistic and evolutionary. Neoclassical economics is reductionist in the sense that a
series of complex ethical considerations are reduced to simplistic reasoning in utility terms (Woo 1990).

Another instance of this is the relationship between economics and other social science disciplines. The neoclassical economist tends to look upon economics in terms of independence and autonomy, whereas the institutionalist is oriented in a more interdisciplinary and holistic direction, eager to learn from psychology, sociology, political science, business economics, philosophy, etc. Sometimes, however, one can observe an imperialist tendency among neoclassical economists, in the sense that the reductionist philosophy is "holistically" applied to subject matter normally associated with other disciplines. I am thinking of public choice theory, with its economic man assumption extended to politicians, bureaucrats etc. (cf. Söderbaum 1991). When it comes to economic method for purposes of decision making, neoclassical cost-benefit analysis can be regarded as a case of monetary reductionism. The institutionalist here suggests a more holistic conception of economics (Söderbaum 1987).

Thinking and modelling in terms of equilibrium exemplifies the mechanistic tendency of neoclassical economics, whereas the institutionalist tends to study patterns of events in historical time. This study of patterns is not limited to the regularities generally emphasized by neoclassical economists (e.g. Allais 1990). Patterns that are perceived as unique may be as interesting. In fact "pattern modelling" has been used as a characterization of many writings by institutionalists (Wilber and Harrison 1978).

The institutionalist, furthermore, tends to be sceptical about positivism, while not rejecting this philosophy altogether. In any case, the idea that objectivity and so-called value neutrality is always good and subjectivity bad is questioned. Subjectivity may instead be regarded as an asset. A scholar who is committed to some idea of a good society may be more successful than one who regards himself as disinterested. And it may be somewhat unrealistic to expect any scholar to be perfectly uncommitted. If a scholar does not care much about the way society develops, he or she may instead be very deeply committed to specific theories or models, which in turn can be a hindrance to new thinking.

As part of an open-minded attitude to alternative epistemological positions, the institutionalist regards hermeneutics as a positive possibility in some research situations (Bush 1990, see also Prychitko 1990). In the common case of a conflict between interested parties, concerning for instance a construction project, one of the things the analyst can do is to listen to the parties involved, interpret, reproduce and articulate their respective views of progress in society and attitudes to the various alternatives considered. This can be a good starting point for dialogue and an analysis of impacts.

Environmental Problems as an Example

The pros and cons of different paradigms and epistemological positions are best debated in relation to specific problem areas. Neoclassical economics may perform better in some areas than others, owing to its main focus etc. Similarly, institutional economics may have advantages in certain areas. Gunnar Myrdal, for instance, argued that this was the case for areas such as development and environment. I share this assessment and have made it a working hypothesis in my research (Söderbaum 1990). It can be argued that neoclassical economics was not originally developed to deal with environmental problems and that these problems may differ in important respects from those previously addressed (the irreversibility of many environmental impacts, the ethical issues involved etc.). Modified versions in the form of neoclassical environmental economics, therefore, may not be enough.

Many actors on the local, national and international scenes realize the serious nature of problems relating to the environment and natural resources. Concerned citizens, politicians (including representatives of green parties), and scientists all over the world are worried about our way of viewing progress in terms of GNP growth and are discussing alternative development concepts. Some representatives of political parties and also business leaders are looking for new concepts and new philosophies of resource management. The Green Party in Sweden has repeatedly arranged seminars to discuss "ecological economics" as an alternative to an economics which they feel does not deal adequately with environmental problems. How should we, as economists, react to such demands? Should we go on as before in the largely monopolistic, one-commodity world of neoclassical economics? Or should we encourage competition, in the sense that more than one
commodity is supplied?

Are we ready to listen to and learn from the consumers of economic theory? Do we realize that new thinking comes at least partly from them and not exclusively from the academic community? Will the consumers of economic theory become "free to choose" to some extent or will their options be narrowed down to a relationship of intellectual slavery?

Conclusions

The political element in economics is in itself an argument in favor of encouraging pluralism and competition, also at the level of paradigms at the universities. A continued exclusive reliance on the old economics means that the political demand for economic theory will be satisfied for some groups in society, but not for others. For instance, an economics that focuses on the monetary aspect, while regarding other things as secondary, will be popular among those who prefer to downplay social, health-related, cultural or environmental factors. But in a democracy there will always be other groups with other political ideals and beliefs. Closing the door to these groups by arguing that there can be only one correct economics reflects a strange idea of social science in society.

The propaganda aspect of economics is a further reason for some pluralism. Education in economics at the universities and elsewhere means that what we influence what is observed. Repeating the assumption of profit maximization in firms a number of times as part of a course on microeconomics will not do much to broaden the thinking habits of future entrepreneurs in the direction of considering and estimating social and environmental impacts. Without denying the importance of the monetary aspect, a number of complementary or alternative organizational theories can be offered (cf. Morgan 1986).

Finally, a state of working competition between advocates of different paradigms at our universities will be good for science itself, i.e. for creative thinking. Protectionism is as bad in the sphere of ideas as it is in relation to commodities. Every scholar should know something about the alternatives to his or her preference, and debate should be encouraged. A process of mutual learning can be expected as part of this dialogue. For instance, the average institutionalist does not like public choice theory because of its simplistic economic man assumptions. But he or she may at the same time realize that this theory is a stimulating challenge to further thought. How do we as institutionalists (with our claimed emphasis on actors and institutional arrangements) respond to this challenge? In such a dialogue, institutional change in the form of new associations and journals may play a role. The Society for Ecological Economics, with the journal Ecological Economics, exemplifies an arena in which neoclassical environmental economists meet their institutional colleagues and also representatives of various schools in ecology.

A scenario with a number of schools and paradigms competing side by side and increasing or decreasing in a stepwise manner their relative shares of the "market" (in terms of producers and consumers of economic theory) is suggested for the social sciences, then, rather than the old Kuhnian idea of more far-reaching and complete paradigm shifts. And signs of good scholarship at the level of the individual researcher and teacher become associated not only with the traditional qualities of style and systematic presentation, but also with an open-minded attitude both to the political element in economics and to competing paradigms.

References


Prychitko, David L., 1990. "Toward an Interpretive


