Book Review Column

In Search of a “New” Paradigm in Economics:
A Review of Neva R. Goodwin’s Social Economics:

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The fact that mainstream economics has been heavily criticized is nothing new. During the last few years, however, the questioning seems to have become more fundamental. The relevance of the whole discipline has been questioned, or at least there have been suggestions that today’s economics may not necessarily cover all the questions that an economist may take interest in. (The vulgar version of this criticism is, of course, that “economics is nothing but mathematics any more”.) There are now several discernible movements to create new paradigms in economics, known under different labels, such as socio-economics, institutional economics, evolutionary economics, etc. In a different dimension there is considerable intellectual tension between theoretical and applied economics. Most of the “alternative” approaches seem to have in common the aim at enlarging the coverage of economics, but less so at changing the analytical approach. Neva Goodwin’s new book is an attempt to do both.

A book with the ambition to create a new paradigm in economics is not a usual endeavour and it goes without saying that the perspective that must open up for potential innovators would be likely to scare away most of them. However, a continuing critical discussion on methodological questions is of course so crucial for the progress of the science that even work that does not quite live up to the original level of ambition is welcome. This goes partly for the present book as well, since nobody can demand that the entire purpose of the work can be fulfilled within some four hundred pages (which the author is well aware of). The book covers a lot of ground as it is though. According to the author, one of the main ideas with “social economics” is to create a conceptual framework, a “home” for the best of the applied work which then would lend itself to teaching much easier than what is the case today. Goodwin’s alternative, “social economics” is not intended to replace the neoclassical framework but rather to be a complement. Still the task the author takes on is formidable and the self-evident observation that a full account of “social economics” is not provided in the book is of course no valid criticism of her work, since such a task cannot possibly be accomplished in one book and by one person.

The starting point for the present work is the recognition of a well-known tendency for economists to concentrate their effort on problems that can readily be tackled by the existing dominant paradigm. (For some reason the author chooses consequently to mention also Marxism along with neoclassical economics as the traditional approaches, as if these were theoretical systems with equal weight within the profession, which they are not. Somehow one gets the impression that Marxism is mentioned only to avoid an obvious point of criticism. A minor point: Marxism is not designed primarily for providing understanding of the communist economy, as the author maintains, but the capitalist economy.) A common criticism in fact goes further and — with some justification — points at the tendency to choose the problem according to its formal treatability instead of using the relevance of the problem as a criterion. In the words of Goodwin, economists have strived at precision (exactness of measuring what is actually measured) at almost any cost of accuracy (i.e. exactness of measuring what is intended to be measured).

With a given set of basic assumptions it is, according to the author, inevitable that the science sooner or later runs into diminishing marginal returns, searching through the same area over and over again in the hope of finding something new of importance. The author concludes — I think maybe somewhat prematurely — that there is hardly any quantifiable ground left for economists to explore, while there are vast areas of relevant territory that has to be explored by other means. The imminent risk that the obsession with analytical technique forces many (most?) economists to work at the
verge of their own incompetence does not help. One may perhaps also ask how can it be possible that a graduate student trained in mathematics, physics or statistics — armed with a few basics in economics and a well-developed ability to manipulate mathematical expressions is often able to make faster progress in economics than people with a degree in economics and profound empirical knowledge of the economy?

As Goodwin points out (pp.31-32) mainstream economics is developing along a “progressively narrowing path” while the questions posed to economists tend to cover an ever widening field. An indication of this dilemma is that the realm of applied economics, the content of which is largely determined by exogenous demand, gets so little support from theoretical developments. As Arthur Lewis (1984) once noted, it is amazing how seldom even the most brilliant theoretical economists can come up with much more, as far as economic-political recommendations are concerned, than what any bright undergraduate student of economics can do.

It is in a way ironical that the construction of a “new” economic science takes Alfred Marshall, that great consolidator of neoclassical economics, as its starting point. However, Marshall’s thinking had, as well known, many sides and, not surprisingly, those very elements that are most difficult to formalize are the ones that were “forgotten” in the subsequent development of economics. The role of Marshall is explained by the author as that of the last great economist who still made use of the classical discipline, “political economy” and hence worked with a much wider spectrum of thought than of the mainstream economist of today.

Goodwin shows how the economic science during Marshall’s time split up into two, one of which developed into neoclassical economics, and the other the more “humane” aspects of economics. Goodwin, noting that it would hardly be sensible to develop her “new” economics from the very beginning, sees Marshall’s economics as the point in the development process of economics where a maximum number of options for the development of the science were still open, and therefore chooses to take her starting point from him.

Although Marshall was well aware of the gap between what would later develop into the neoclassical theory and the strand of reasoning more devoted to discussion of human welfare problems, he saw the problem as a methodological one which scientists should be able to overcome by time. A central argument in Goodwin’s work is, as a matter of fact, that Marshall’s attempt to preserve a logical bridge between the two strands was flawed. One may argue, however, that the thinking of Marshall is never presented to the reader in a very comprehensive, accessible form in the book. Mostly it is Marshall’s struggle with the concept of “value” on the one hand and prices on the other that holds the attention of the author. A thorough presentation is impossible of course, and the author may rather want to provide a rationale for her “social economics” than to scrutinize Marshall for his own sake. Still, a brief presentation Marshall and his fundamental contributions to economics would have been a useful background for understanding the material that is actually included.

Another point, raised later in the work, but equally relevant in this context is the observation, in itself certainly not new, of the ahistoricity of today’s economic theory. Ignorant of how a certain assumption in economics has come about the economist is prone to take it at face value without reflecting on what is really included in the assumption. Poor predictions then become more a question of deficient details in the formalisation process rather than fundamental problems in the formulation of the theoretical framework.

The book is divided into four main parts. Part I, probably the most important one, gives an outline of the author’s, vision of the scope and contents of “social economics”. Part II is concerned with methodological problems, while Part III deals with the distinction between positive and normative economics. Part IV comprises only one chapter and can best be characterized as a summary with conclusions.

Part I sets out to capture the contents of the concept of “social economics” and is therefore the core of the book. It is hard not to agree with most of what Goodwin says here, although I have to admit that, to me, the specific contents of her alternative paradigm remains slightly vague. What we are told is, basically, that social economics has broader goals, such as sustainability and economic justice, instead of only consumption as in neoclassical economics. Methodology-wise the author wants to put more emphasis on judgement and experience and less on mathematical analysis.

In Part II a central chapter is the one on the “realisticness (the term used by Goodwin) of assumptions”, where the author attempts to show in which cases the nature of the assumptions is likely to matter and when that may not be the case. The problem with this discussion is that both concepts, “realisticness” and “assumptions” can be
interpreted in different ways with different consequences for the conclusion. The very extensive discussion that can be found on this topic gives abundant evidence of this. The discussion on this topic is stimulating and thought-provoking but I am not sure that the author, at the end of the day, has said anything that has not been realized before. Anyway, Goodwin’s candidate for the “dangerous” assumption is—shortly expressed—the extreme idealization of the type that is logically impossible to find any correspondence for in the real world. While this analysis is easy to agree with I am considerably more sceptical about some of the author’s alleged implications, particularly perhaps the idea of abandoning the auxiliary concept of equilibrium and conceive reality as a dynamic process instead. Only a recognition of the unsatisfactory nature of the static equilibrium approach is of course trivial as anybody knows that it is adopted mainly because manageable alternatives have not been discovered (yet).

Part III of the book is also quite specific. It deals with the meaning of “value” in economics, as such of course a theme that is as old as the economic science itself. In this part Marshall himself appears more in the foreground, since one of the problems with the economics of Marshall was his very strong perceived need to capture something more than just “exchange value” (or price) with the notion of value, an urge that of course had to do with his idealistic attitude to economics: He wanted to learn how to improve the welfare of humankind and thus was interested in capturing what the author calls “human values”, which underlie motivations or satisfactions. Although this may be a matter of taste, I feel that the discussion on this point—is almost unnecessarily extensive. Very illuminating is, however, the section where Goodwin, in a rather merciless fashion, shows that today’s welfare economists have not been able to overcome the problem already realized by Marshall. In fact, it seems they have not made much progress at all. They have instead, it appears, managed to make the problem less transparent by engaging themselves in more and more elaborate formal exercises.

Goodwin’s book is fascinating reading, sometimes funny, sometimes enraging in revealing the almost totally technique-centered nature of much (most?) of today’s economic reasoning. However, the author’s endeavor to present an alternative approach loses some of its drive after Part I, as she no doubt is uncomfortably aware of. The book does not quite live up to the statement in the first chapter that “most of this book will deal with... social economics”. In fact, most of the book, I would like to claim, is about more or less well-known deficiencies in traditional economics. After Part I the author tends to lose track of social economics, as she tries to pinpoint exactly what traditional theory docs or does not do. Hence, there remains a lot to be done in future work—which is of course only what could be expected. “Part II” (that is the author’s planned next volume on the topic of social economics) will not be easy to write, but then, a success would certainly be a contribution to a major widening of the scope and method of economics science.

One may wonder what the chances are for a “new” economics to establish itself. If we base the judgement on earlier experience the prospects do not seem very good. Mainstream economics has shown a remarkable ability to accommodate new ideas, or at least enough of them to give the impression that the challenge posed by the new element has been taken care of. The reason is of course the nearly tautological character of neoclassical economics. I do not think anything can affect the momentum of today’s mainstream economics. What conceivably may happen is that the “new” approach branches out and becomes a discipline of its own. (This is what happened earlier with the business-related economic subjects, such as marketing, accounting and finance). The reason why this has not happened already is probably the heterogeneity of the “new” ideas, which makes it difficult to form a sufficiently coherent paradigm out of them.

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