January 2014 NEW SCHOOL ECONOMIC REVIEW Volume 6: 36-39

HETERODOX ECONOMICS AS A TRUE ALTERNATIVE: GOING BEYOND THE OPPOSITION BETWEEN "PERFECT" AND "IMPERFECT" BEHAVIORS

Anwar Shaikh

Initially presented at the Visions in Heterodoxy panel in April 2012 at The New School, New York.

I want to start by saying that if you look at what heterodox economics is, it seems to be largely defined at least in terms of "departures" from some aspect of orthodox economics. The orthodoxy furnishes the core assumptions and heterodoxy focuses on departures from them. Core assumptions: selfish behavior; departure: social behavior. Core assumption: optimal outcomes; departure: non-optimal outcomes. Perfect knowledge: imperfect and asymmetric knowledge; rational choice: bounded rationality; perfect competition: imperfect competition; rational expectations: adaptive expectations; stochastically determinate futures: non-ergodic futures; passive interactions: strategic interactions (game theory); automatic full employment: possible unemployment; all outcomes internal to the market: some outcomes may involve externalities; the ideal function of the state is to protect property rights and free markets: the state should regulate some market outcomes.

What is interesting is that many of these departures are now also part of orthodox economics because they're viewed as *extensions* of the basic theory. The core assump-tions define the basic theory; the departures allow you in every textbook to have a chapter or two on real world applications. So, Becker's theory of the household allows you to introduce some limited social interactions. Simon's focus on bounded rationality relaxes the assumptions of rational choice or perfect knowledge. Stiglitz focuses on asymmetric knowledge, especially in the financial institutions. Krugman focuses on the implications of economies of scale and heterogeneity of preferences in theory of international trade. Behavioral economics in general focuses on the departures from the notion of rational econometric man. And game theory focuses on small scale and maybe larger scale strategic interactions.

What is most striking about this core/departure set is that these departures cannot be added up into a general theory. *There is no general theory of departures*. The departures have to start from the core theory and they all consist of modifications that are local to that set of assumptions. So, you take a proper textbook in orthodox economics today and for every description of one of the core things, there will be a departure. But when you get to the end of the textbook you still have the core theory because the departures are presented as embellishments.

The effect of all of this is that the core of the theory remains central to the discourse, in a literal sense, the point of departure. Hence it maintains its hegemony. For that very reason, I would argue that heterodox economics should not operate in this manner because it in effect keeps the Pope in place while allowing for some doubts about individual priests. This is not a good way to construct a proper alternative.

What then should define heterodox economics? I think it is that it should be grounded in an altogether different theoretical foundation. Now of course you'll come back to the same issues and you may come back with the understanding that markets are not optimal, they're not efficient, and all that, but it shouldn't be done by means of starting from the general theory of orthodox economics and then moving away a little bit at a time.

And here there are really only two basic options in terms of general theories, though there are many other specific subsets of each. First is Keynesian theory. What is important is that it is constructed differently from neoclassical theory. It is not to be derived by putting imperfections in neoclassical theory; it's really a different theory. And Keynes, particularly, saw himself clearly as proposing a different foundation for economics, not merely a modification of standard theory. He saw himself as over-throwing the standard theory and creating something else, which is why he called it *The General Theory*. The key point in Keynes' argument is that aggregate demand is the ultimate limit to production and employment. Unemployment may well be a normal state of affairs in a capitalist economy. Kaleckian theory starts from the same foun-dation as Keynes, but then grounds it in a theory of "imperfect competition"--something Keynes himself refused to do. Keynesian theory (and Keynes himself in particular) was strongly pro-capitalist which makes it much more acceptable to the powers that be. The market and the state together will supposedly achieve the promise that the orthodoxy locates in the market alone, e.g. full employment growth and price stability. That was a powerful motivating force for the early Keynesians and I still think it is today. From this comes a fundamental understanding of role of the state as regulator of the market—the state as a potentially neutral referee. And obviously these differences from the orthodoxy have important implications for policy. I would say that Keynesian theory is the dominant point of view within the heterodox tradition.

But there is another set of theories, which are in a sense older than Keynesian theories and here I want to call them Classical Political Economy. The theories of Smith, Ricardo, and, especially, of Marx, are different from Neoclassical orthodoxy but also different from Keynesian and Kaleckian theory. Capital and labor are not viewed as equal. Class is a fundamental social relation. Race, gender, and ethnicity are bound within the matrix of class relations and that's a very important point: they're not separate, they're bound in that matrix. The emphasis in this framework is on turbulent patterns of market forces. Markets don't achieve equilibrium, they achieve a rough balance by overshooting and undershooting and the disorder is the means to the order; they're not separable. Emphasis in this tradition is on competition as the root of the powerful gravitational forces of political economy. The dominant incentive is the profit motive. It dominates all others because it's central to the operations of capital and hence to the business sector. The system is viewed as inherently expansionary, and this expan-sionary drive is in turn rooted in the very nature of capital, which is to put money (M) in to get more money out (M' > M). And of course you need to keep putting more in to keep getting even more out. This expansionary character of capital shows up in its geographical expansion as well as in its expansion to new applications all the time. So capital spreads not only across the globe but also into increasing numbers of other areas of life. Mechanization and industrialization are intrinsic features of the system from this point of view. And unemployment, if you especially follow the argument in Marx, is a necessary outcome. It's not an option, not a possibility, it is a necessity. The system has mechanisms to create and maintain a ready pool of unemployed workers. All of this is of course on a *global* scale, not national scale, because the markets operate on a global scale. So you cannot speak about national employment in the US as if it is unrelated to unemployment in Latin America or to employment in Germany as if it is unrelated to unemployment in Italy or Spain or Greece. The last point is that the state, from this point of view, can be a potential regulator, but is subject to two sorts of limits: a political limit (something which has long been emphasized in the Marxian tradition, as in Sweezy, Magdoff and Lenin); and a profit limit, because a state runs up against increasing resistance if it impinges upon the profit motive. I am clearly in the Classical tradition.

Has the current global crisis opened up space for heterodox economics? I think the immediate reaction to the crisis and to the clear bias that the state has exhibited everywhere—absolutely everywhere except for some Latin American countries—has been a local and political revolt. And it's growing and it will continue to grow because I think that things are not going to get better in any near future. But there's also a reaction within the dominant capitalist institutions themselves that market funda-mentalism (which these same institutions have been enforcing on the rest of the world and on the center countries, too) has been flawed. Dominique Strauss-Kahn, at that time the Managing Director of the International Monetary Fund (IMF) said at the first INET conference in Cambridge that "we" have been misled by the standard models. Now *this* was a voice speaking from the center of power. So there are potential new spaces for alternatives to orthodoxy. And even in political circles and official circles, there has been a comeback of Keynesian economics because, in practice, the state has had to return to Keynesian practices. As seen in practice, when you engage in so-called austerity, things get worse for many segments of the population.

But in universities across the world, most economics departments are still under the control of the Ayatollahs of Economics. That is just a fact. At the same time the wall that they have erected is cracking. It is cracking less in the United States than it is in Europe. And it is cracking more in Latin America than it is in Europe. So, where does one look for new economics? I would say that one would look in Latin America more than Europe, and in Europe more than the United States. The US lags furthest behind in terms of this opening space. The space is there and it will likely open further, though there is no guarantee of that. But I can say that this is a hopeful time for all of us who have long argued against the orthodoxy and have long emphasized its grave deficiencies.