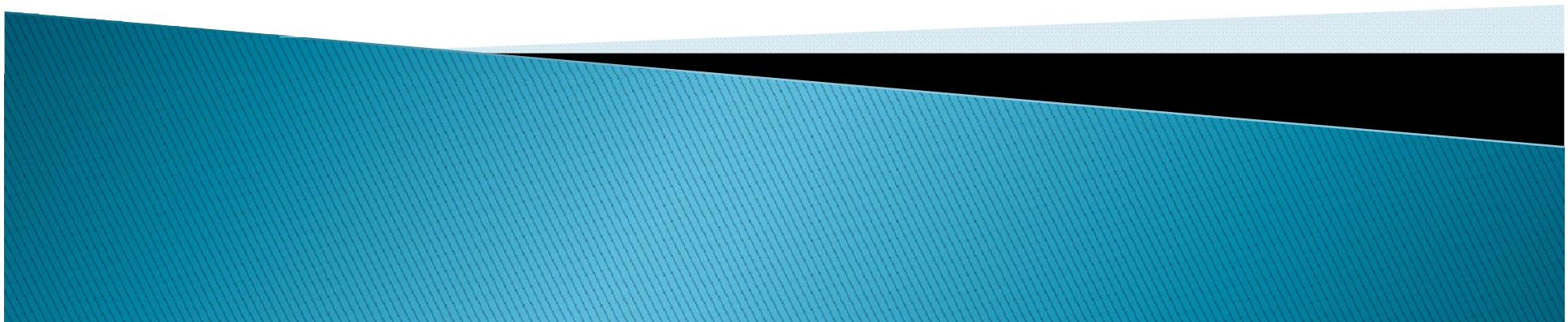


For a modest and heterodox mainstream economics

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Coimbra, October 22, 2010



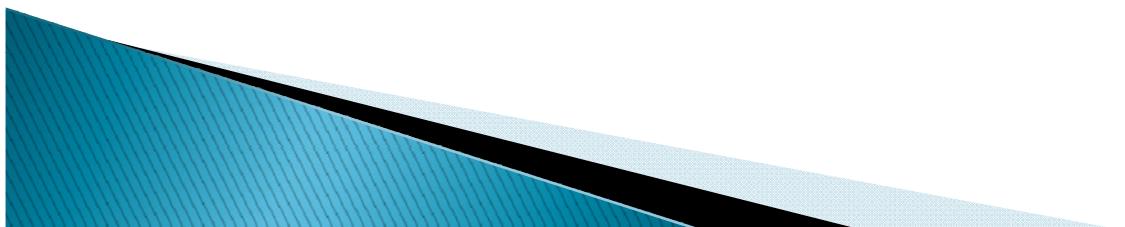
Basic claim

- ▶ The 2008 financial crisis represented a setback for neoliberal ideology and for neoclassical economics.
- ▶ It opened room for
 - ▶ –a new mainstream economic policymaking and for a modest
 - ▶ –and for a heterodox mainstream economics.



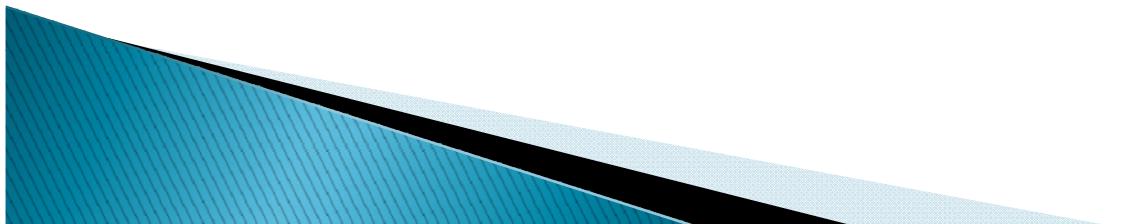
Neoliberalism

- ▶ – 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 financists against a democratic state and against the workers, the poor and most of the professional class.



Neoclassical economics

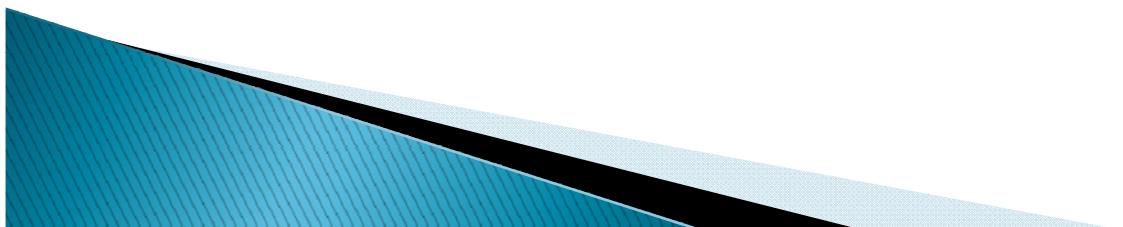
- ▶ Is the “scientific” economic theory that legitimates neoliberalism.
- ▶ Is the hypothetical-deductive economics that, based on the homo economicus and rational expectations, concludes that markets are self-regulated and efficient.
- ▶ It is the alternative to a historical-deductive economics combining Marx, Keynes and structuralist 1950s development economists that, today, I call “Keynesian-structuralist Economics”.



Neoclassical economics is not dead

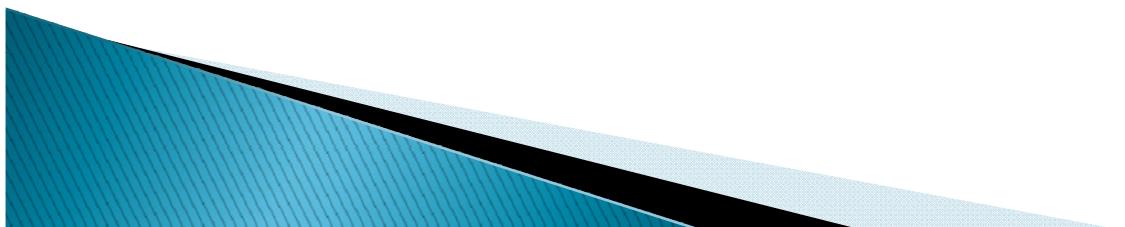
it became mainstream in the 1970s

- ▶ –Its incapacity to explain and predict economic systems
- ▶ –and the inclusion in the mainstream of non consistent theories like game theory and behaviorist experimental economics
- ▶ Led Colander (2000) to say that it was dead, but he is wrong.



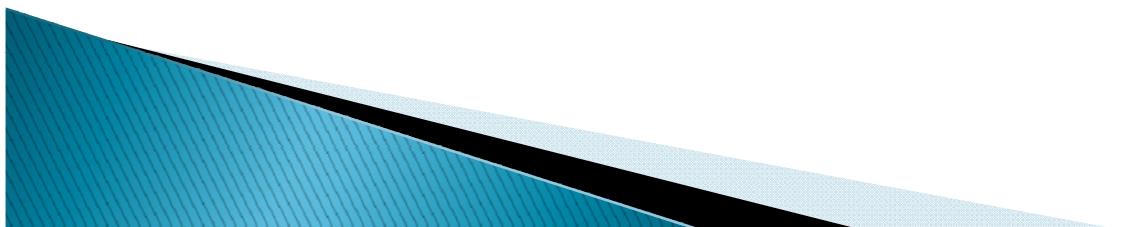
Neoclassical economics is essentially wrong

- ▶ It is essentially an ideological apparatus.
- ▶ Its outcome are mathematical castles in the air,
- ▶ because it uses the hypothetical-deductive method, which allows for mathematical reasoning, but it is inadequate to a substantive and social science as it is economics (the methodological critique).



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 said it was ideological – but this was obvious, but the response was that the critique was also ideological;
- ▶ – it tried to show non empirical adequacy, but empirical debate is always non-conclusive.



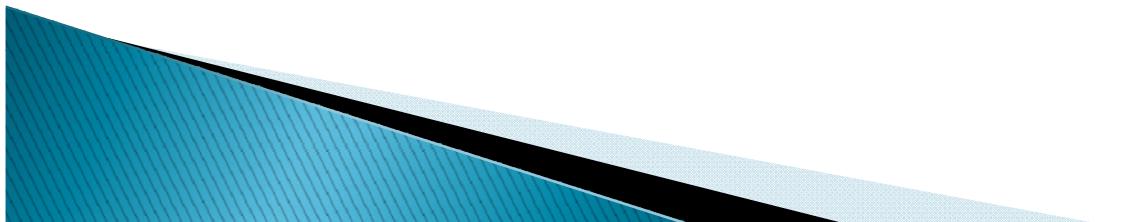
Types of science and method

Substantive sciences, subdivided into Natural Sciences and Social Sciences

- Have an object;
- are supposed to adopt the empirical (historical)–deductive method

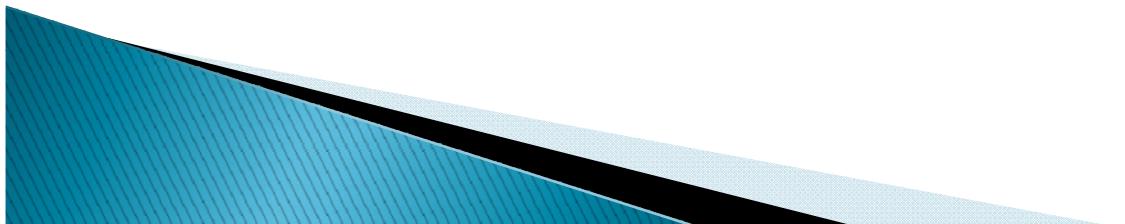
Methodological Sciences

- Have no object;
- are supposed to adopt the hypothetical–deductive method.



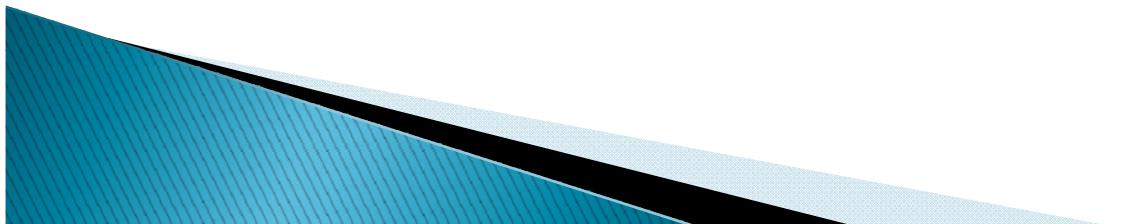
Criterion of truth

- ▶ Actually, the criterion of truth that it uses
- ▶ is not adequacy to reality (the adequate criterion for substantive sciences),
- ▶ but logical consistency (the criterion for methodological sciences).



The methodological critique and uncertainty and non-ergodic processes

- ▶ The methodological critique to the neoclassical core corresponds to
 - ▶ –Keynesian and Minsk's uncertainty
 - ▶ –Keynes' animal spirits
 - ▶ –Paul Davidson's non ergodic character of economic processes.



The neoclassical core

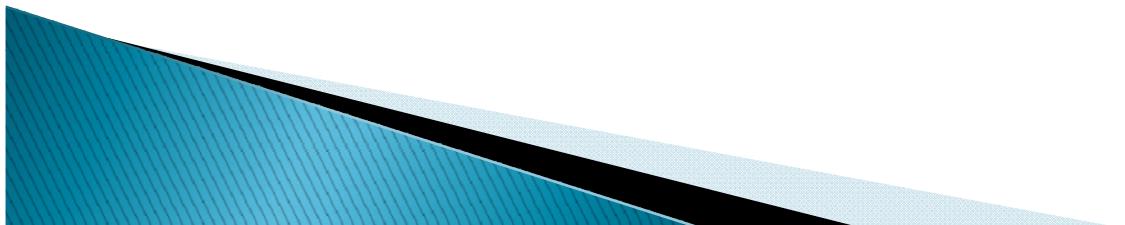
- ▶ 1. the Walrasian general equilibrium model
- ▶ 2. rational expectations macroeconomics
- ▶ 3. endogenous growth models

- ▶ This core is supposed to be internally consistent.



Marshallian micro is part of the mainstream, not of the neoclassical core
(provided that we exclude from it the marginalist value theory)

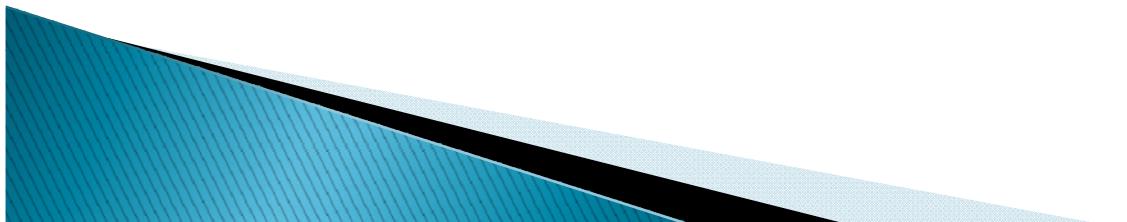
It is not the “microfoundation” of economics:
economics does not need it.



Two complementary sciences

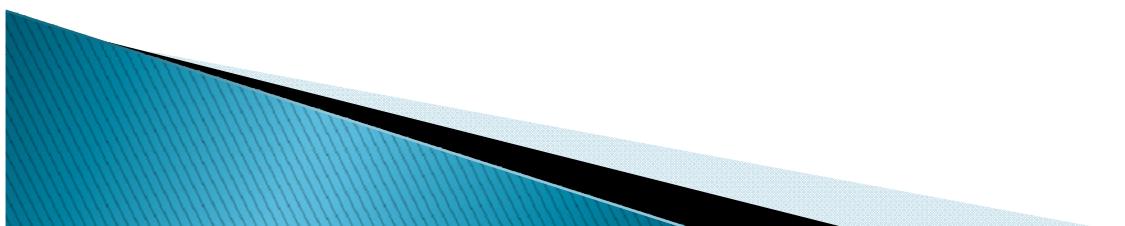
Marshallian microeconomics is, actually, another science, a methodological science, Economic Decision-making Theory, together with Game Theory.

The other complementary methodological science to economics is Econometrics.



Other branches within the mainstream (but not core ones)

- ▶ 1. Applied Microeconomics
- ▶ That actually does not need the neoclassical core
- ▶ Sometimes offers useful research relating simple variables
- ▶ 2. Orthodox policymaking and policy analysis
- ▶ that is often competent (less incompetent than heterodox economists suppose), because policymakers actually do not use 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

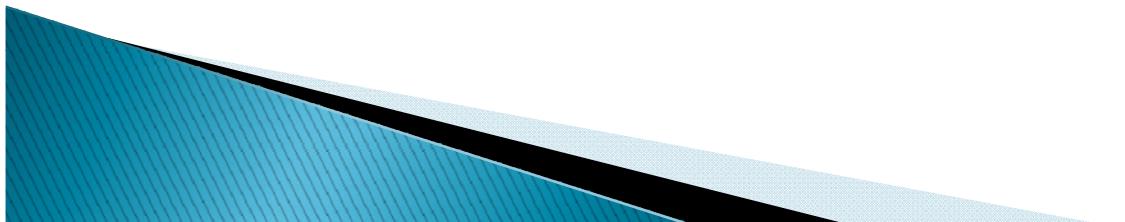
- ▶ Dialectical and structural
- ▶ Because the just cause and effect scientific method is not sufficient to explain economic relations that besides complex are contradictory, dialectical themselves.
- ▶ Hermeneutic
- ▶ Because, although economics is a science, it is also one of the humanities.
- ▶ Pragmatic
- ▶ 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

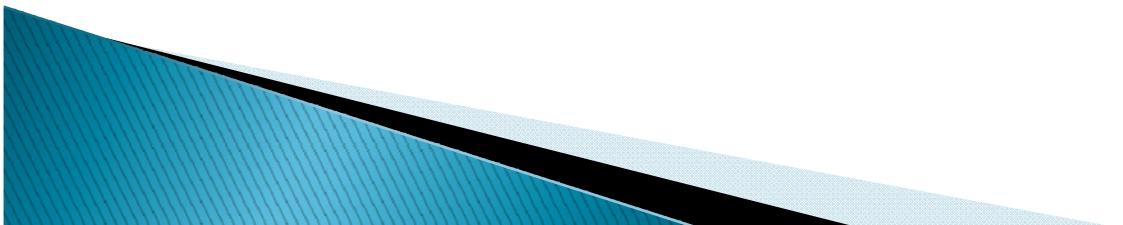
- ▶ Classical economists among which Marx and Built a historical-deductive development economics or political economy (to me synonyms),
- ▶ while
- ▶ Keynes and Kalecki found a historical-deductive macroeconomics

- ▶ We need an alternative development macroeconomics.



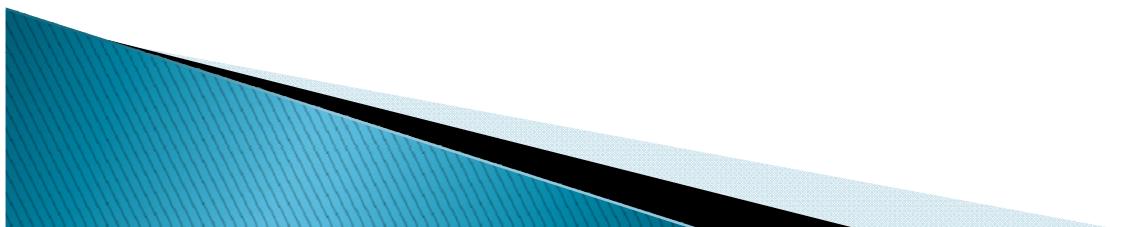
Structuralist–Keynesian Economics

- ▶ – 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 the policymaking and policy analysis area change is already taking place
- ▶ –in the universities, it will take more time, because
 - ▶ 1.they are self-referred,
 - ▶ 2.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.

