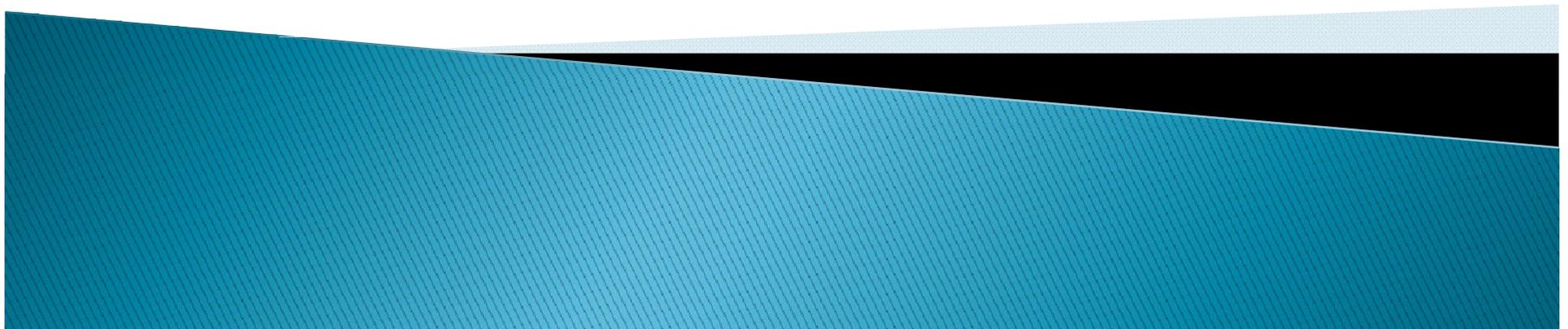


# For a modest and heterodox mainstream economics

Luiz Carlos Bresser-Pereira  
Coimbra, October 22, 2010



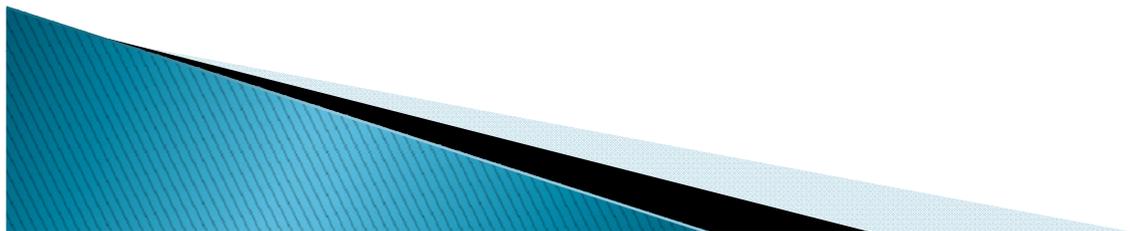
# Basic claim

- ▶ The 2008 financial crisis represented a set back 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.



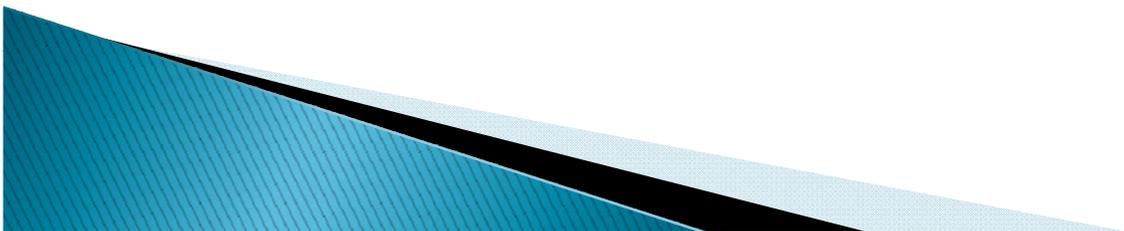
# Neoliberalism

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



# Neoclassical economics

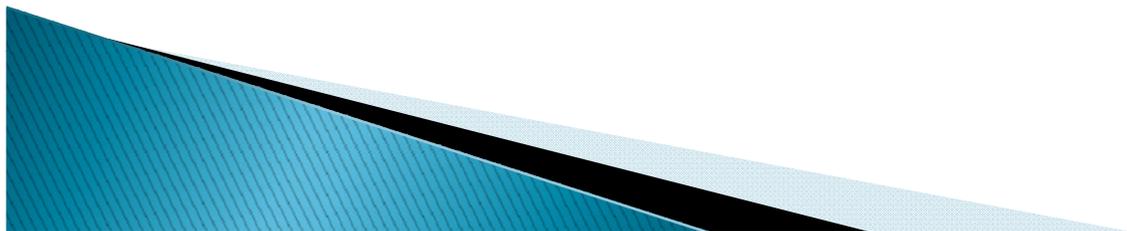
- ▶ Is the “scientific” economic theory that legitimates neoliberalism.
- ▶ Is the hypothetical–deductive economics that, based on the homo economicus and rational expectations, concludes that markets are self–regulated and efficient.
- ▶ It is the alternative to a historical–deductive economics combining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



# Neoclassical economics is not dead

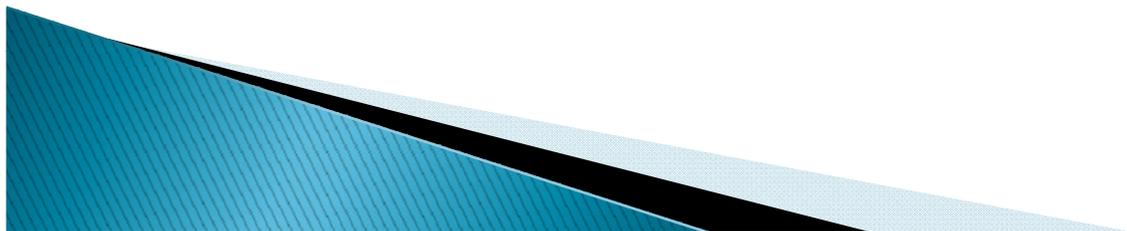
it became mainstream in the 1970s

- ▶ -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.



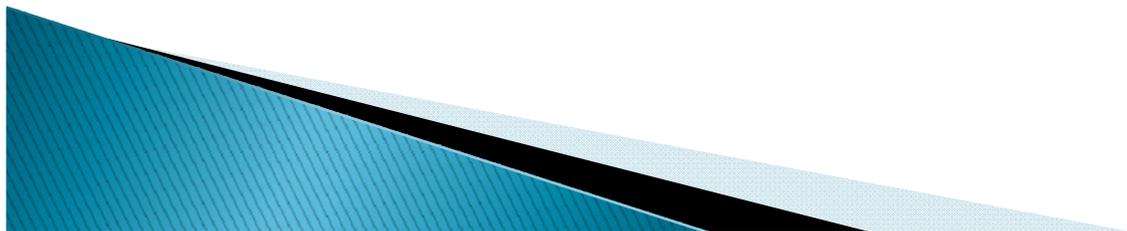
# Neoclassical economics is essentially wrong

- ▶ 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.



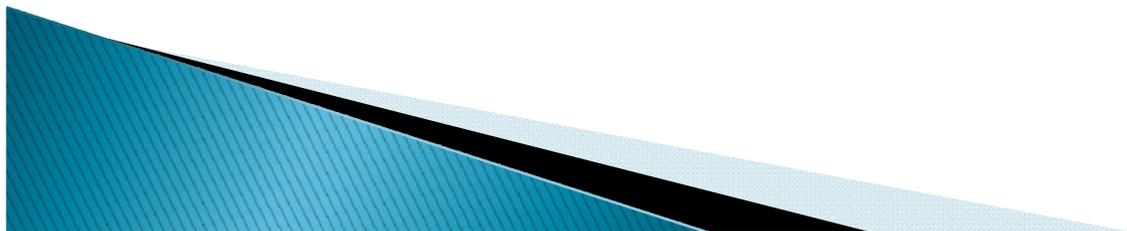
# Types of science and method

**Substantive sciences**, subdivided into Natural Sciences and Social Sciences

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

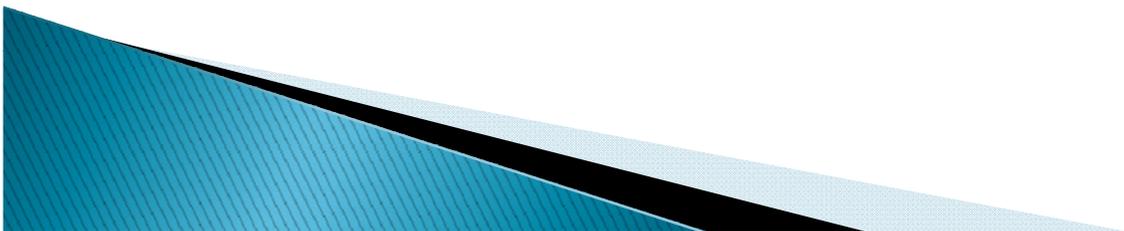
**Methodological Sciences**

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



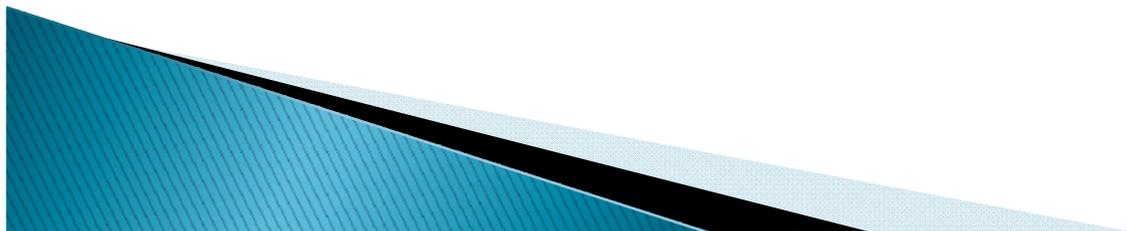
# Criterion of truth

- ▶ 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).



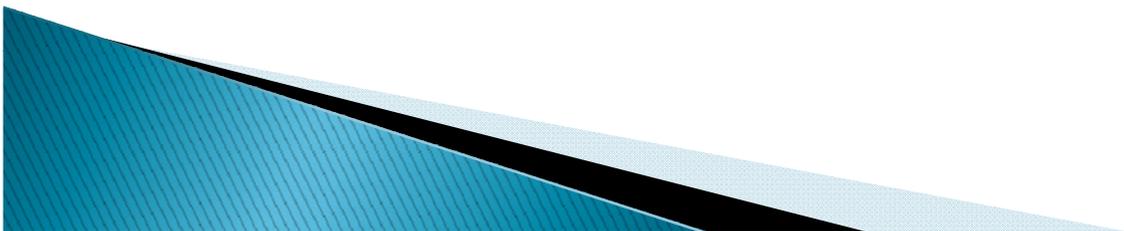
# The methodological critique and uncertainty and non-ergodic processes

- ▶ 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

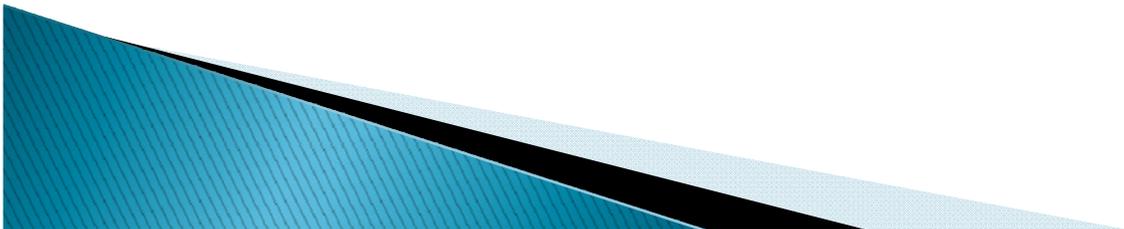
- ▶ 1. the Walrasian general equilibrium model
  - ▶ 2. rational expectations macroeconomics
  - ▶ 3. endogenous growth models
- 
- ▶ This core is supposed to be internally consistent.



**Marshallian micro is part of the mainstream, not of the neoclassical core**

(provided that we exclude from it the marginalist value theory)

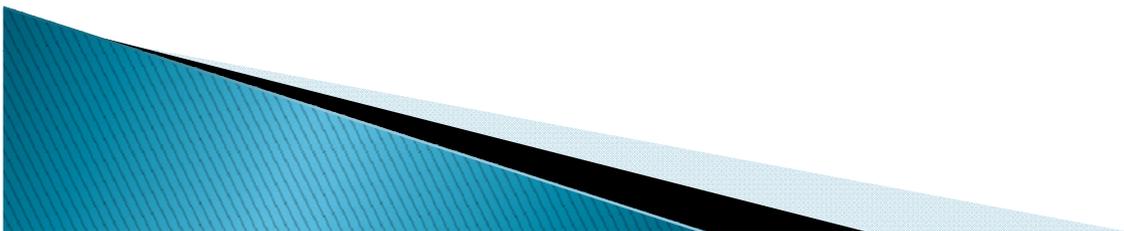
It is not the “microfoundation” of economics: economics does not need it.



# Two complementary sciences

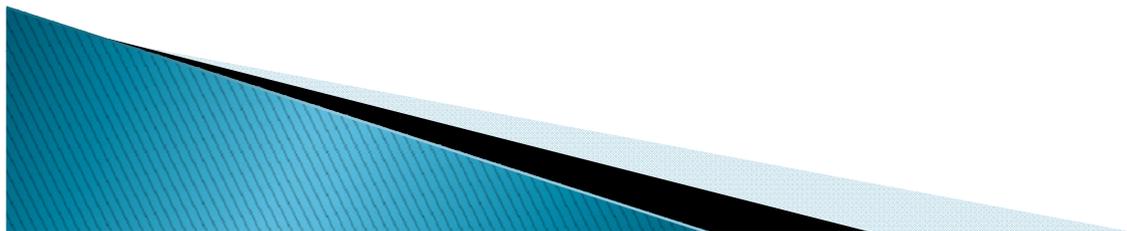
Marshallian microeconomics is, actually, another science, a methodological science, Economic Decision-making Theory, together with Game Theory.

The other complementary methodological science to economics is Econometrics.



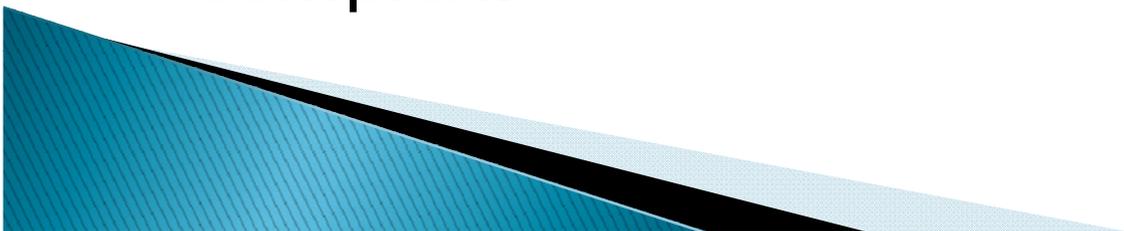
# Other branches within the mainstream (but not core ones)

- ▶ 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.



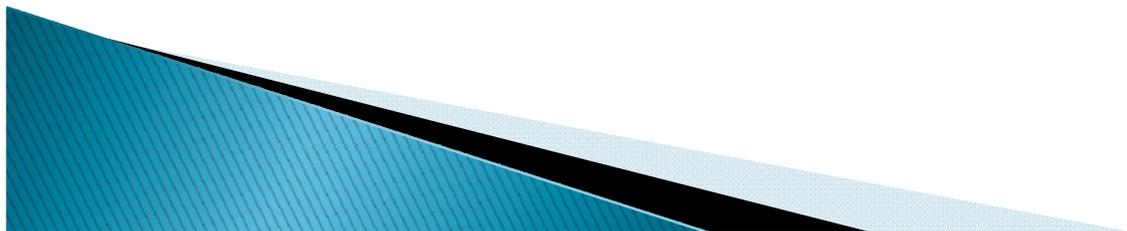
# The alternative must be

- ▶ **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.



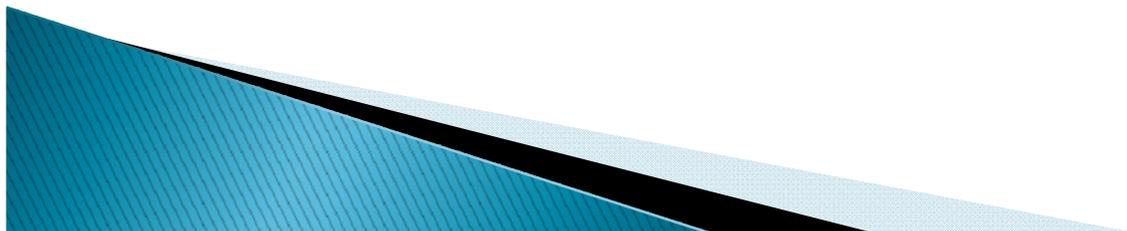
# Besides historical–deductive, the method must be

- ▶ **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.



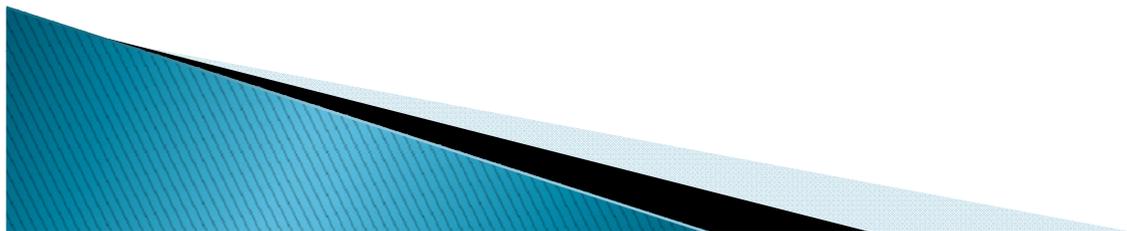
# We don't have to begin from scratch to build the theoretical alternative

- ▶ 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.



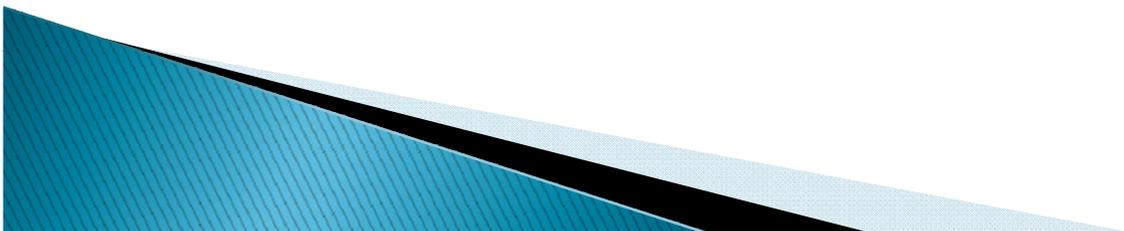
# Structuralist–Keynesian Economics

- ▶ – 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.

