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# **Beyond the Neoclassical Paradigm: A Real World Economics Proposal**

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## **Abstract**

*The paper examines the case against the neoclassical school of thought by the Real World Economics movement with the aim of highlighting their key proposals and policy prescriptions. The paper was able to review the important messages of the Real world Economic Movement, by tracing their ideological origins from the strengths and weaknesses of neoclassical economics which stands for mainstream economics. Arguing for noble changes in the teaching and practice of economics, the paper was able to establish the core argument of the Real World Economist against neoclassical economics; a need for pluralism in the teaching and practice of economics.*

*KEYWORDS: Economic Thought, Neoclassical Economics, Post Autistic Economics, Pluralism*

## **1. Introduction**

“Economics is about people and the society”. This popular avowal about the subject matter of economics emphasizes the direct goal of economics as a systematic accumulation of knowledge. Economics focuses its analysis on the problems of distribution and production that abound in societies, given their general characteristics as well as idiosyncrasies. In the process of this analysis, economics - economist and policy makers – subscribe to a preferred theoretical frame work to form a base for such analysis

and a method of study to elicit possible relationships and inferences that will aid in making postulates about the characteristics of the society and in specific, address societal problems.

Over the years, mainstream economics, popularly referred to as neoclassical economics (synonymous with neoliberalism) and its dictates with regard to the philosophy of science has dominated this systematic accumulation of knowledge. The dominance of the neoclassical economics methodology in the field of economics and the resulting monopoly of policy prescriptions has led to a rather precarious state of affairs in the course of achieving the original goal of economics – being a study about people and the society (Hodgson, 2001). This current state (before the year 2000) in the teaching and practices of economics reflected a very one sided, anti - plural and unscientific method of study. This method of study is the neoclassical economics ideology.

Though theories are supposed to provide an explanation of the world we live in, the limitation of such theorizing will be its level of abstraction. For in the practice of theorizing, there is a valid and real possibility of different theories that highlight the same aspects of our reality, proffering different policy prescriptions (Goldschmidt, 2002). However, the neoclassical economic theory which explains only a limited facet of economics and the society has been able to dominate theorizing in economics to the extent that other theories as well as ideologies have become rather limited and futile. The subject matter 'Economics' is now often interpreted and substituted for 'Neoclassical economics'. This is a very serious problem because it limits critical thinking in the field of

economics and forces the economist to view theorizing and policy prescriptions through the limited lens of the neoclassical economics' concepts which represents an unrealistic fraction of today's world reality (Galbraith, 2001).

This misrepresentation of the meaning and scope of the subject matter of economics by the neoclassical economic school of thought<sup>1</sup> has led to an obviously deceptive scientific claim which has dominated the study and method of economic inquiry (Fullbrook, 2001; 2013). This misrepresentation, heightened the call for a change, which was started by the French Students Petition (June, 2000) and now championed by the Real World Economic Movement. This paper seeks to examine the case being made against neoclassical economics by the Real World Economic Movement (RWEM) with emphasis on their message and key proposals. The rest of the paper is structured as follows: in section 2, the paper provides a precursor to the Real World Economic Movement. Section 3 highlights the proposal of the Real World Economic Movement, while section 4 provides a forward looking thought and possible change in the economics curriculum. In section 5, the paper draws its conclusions.

## **2. A Precursor to the Real World Economic Movement (RWEM)**

As already emphasized, the failure to model reality plus the dominance and monopoly of neoclassical economic theorizing heralded the RWEM. Basically, RWEM is demanding pragmatic pluralism in the teaching and methodology of economics. They argue that for a more acceptable approach to tackling the major socio-economic problems of societies,

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<sup>1</sup> See *Why Economics Is Not Yet a Science*, edited by Alfred S. Eichner, Macmillan 1983

there is a need to thoroughly rethink the understanding of economic theories and the basic assumptions of economics (Helbing and Kirman, 2013). They also advocate for a reduction in the inherent narrowness in economics in order to make it more realistic and relevant (Fullbrook, 2005a). These claims by the RWEM are a consequence of the historical development of neoclassical economic theorizing, which for a time, was able to proffer postulates that were socially relevant to understanding and explaining material problems within the society, but have now lost their usefulness given the ever changing world and its reliance on unrealistic assumptions (Freeman and Kirman, 2006). Neoclassical economics was initially an intellectual attempt at espousing a scientific inquiry to explaining societal problems. A particular strength of the neoclassical ideas lies in its deductive rigor and coherence, which it tailored to the methods and fashion similar to the approaches of the natural sciences especially physics (Heise, 2012). Fullbrook (2005b) argued that, "Neoclassical economics required the treatment of human desires as fundamental data, which, like the masses of physical bodies in classical mechanics, are not affected by the relations being modeled". The intuition behind this admiration of the methods of natural science followed from the belief that, for economics to be regarded as scientific, it had to tag along with the methods of already established and generally recognized natural sciences (Raveaud, 2001).

The drawback of this followership was imminent. Economics as of the time (classical economic period) was known and referred to as 'Political Economy' with a broad spectrum of methods – historical, dialectic materialism (practiced by the pre – Marxist socialist), descriptive methods, abstractions - that could cater for most of the socio –

economic problems of that time. However, with the introduction of a 'Newtonian' styled scientific method and neoclassical economic postulates, the initial pluralism of methods was relegated (Kakarot-Handtke, 2013). Economics as a study was governed by neoclassical assumptions that were far from reality; there was an increase in the misuse of mathematics, which only confused students; there was a reliance on only one view of explaining phenomenon, thereby limiting critical thinking, an anti historical and abstract formalistic approach that provides little understanding to the complex changing world (Barzilai, 2014; Fullbrook, 2013; and Guerrien, 2002).

An obvious example of the failings of this form of economics can be seen in its explanation of the concept of competition (Fullbrook, 2004). For the neoclassical school of thought, competition is regarded as a state rather than a process. It defines perfect competitions as characterized by a large number of firms with identical products, costs, productive techniques and information (Fullbrook, 2004). However, in real life, competition cannot be defined in this manner. Rather competition is a process and not a state of being. It is a continuum where each firm seeks to re – establish the conditionality of their own profitability. To be able to compete, the firms in the market seek out and exploit differences between them in production, technology, distribution, information and consumption patterns (Buch-Hansen, 2014). These are the essential dimension in which competition can take place. Once the neoclassical conception of competition becomes embedded in the students mind, appreciation of the real – world competition becomes logically impossible.

Another example of neoclassical theorizing that is being disagreed upon by the real world economist is the concept of individual preferences. To the neoclassical economist, individual preferences are exogenously determined and atomistic in nature. However, Real World Economist believes that individual preferences are endogenously constructed (Camerer and Loewenstein, 2003). Preferences are Framed, Anchored, Elicited and Malleable, depending on the context in which individuals find themselves when they make choices. Thus individual preferences cannot be atomistic in reality but socially embedded reflecting the important influences of the social context in which preferences are created (Davis, 2007).

Rarely, and probably never, according to Fullbrook (2012) has a major discipline experienced systemic failure on the scale that economics has in recent years. He highlights its failure from two perspectives. One, economists oversaw, directly and through the prevalence of their ideas (neoclassical ideologies), the structuring of the global financial economy that collapsed. The second, except for a few outcasts, economists failed to observe, even before the general public observed, the approach of the biggest financial meltdown of all time. To Fullbrook (2012), as an epistemological event, "the 2008 meltdown of the global financial system ranks with the observation of the 1919 solar eclipse". He was of the opinion that if professional practice in economics bear a resemblance to that in the natural sciences, then in the wake of the recent global disaster economists would be falling over each other to proclaim the falsity of their theories, the inadequacy of their methods and the urgent need for new ones so that they could observe economic reality.

The accumulation of such failings of neoclassical ideas on explaining the real world justifies the famous petition of the French students on June 2000 and subsequent petitions by other students around the world followed, supported by some of their professors who were sympathetic to their cause. The French students Petition of 2000 emphasized specific limitations of the state of the economic scientific method. The petition denounced the lack of pluralism, excessive mathematical formalization and a grave quandary where modeling is an end in itself and not a tool for eliciting economic behavior. The French students called for an end to the hegemony of neoclassical economics and postulates derived from it, and instead, insisted for a more plural methodology that reflects realism (Galbraith, 2001).

The effects of the French student's petition were not limited to France alone. Economics students around the world – The United States, United Kingdom and Belgium joined the cause of the French students and started their own petitions in their home countries. Other petitions – Cambridge Student Petition, Manchester student's petition, World Economics Student's petition, International Confederation of Associations for Pluralism in Economics (ICAPE), and the Kansas City Proposal" – put a lot of pressure on departments of economics all over the world for a change in their curriculum which embraced the key proposals of their petitions. Even though there was some resistance to the call for change – notable R. Solow – Department of economics have started changing



their curriculum in some of the developed economics<sup>2</sup>, whereas the problem still persist in developing economies.

### **3. Proposal of the Real World Economics Movement**

The complaints of the RWEM about the narrowness in teaching and practice of economics and the need for a broader approach to economics theorizing, is the crux of their petition. They argued that, the current state of the subject will not enable students of economics to understand and explain the complexity of economic realities. “The Cambridge 27” (2001) furnished four reasons against the harmful status quo of ‘economics’ as of the time:

- The harm the status quo has on students who are taught the tools of neoclassical economics without understanding the sphere of influence of these tools.
- The society suffers from the limited policy prescription of economics as practiced, given its potential
- A deeper understanding of the workings of the society is restricted due to the monopoly of neoclassical economics.
- The problem of ‘success in economics’ being defined by ones affiliation to only neoclassical economics.

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<sup>2</sup> As an example, there is now the inclusion of history of economic thought and other non- neoclassical methods (institutionalism, dialectical materialism, and a focus on interactions between economics and other social sciences) to aid our understanding of the world we live in, into the curriculum of the United States, United Kingdom, France, Italy.

The paper presents a collection of the key proposals of the REWM which is a compilation from the various students' petition as well as positions of reputable professors of economics. These key proposals as advocated by The Kansas City Proposal (2001), Galbraith (2001), "The Cambridge 27" (2001) and Fullbrook (2001);

- That the foundations of the mainstream approach be openly debated. This enlightens the teachers and students to the strengths and weaknesses of the approach.
- That competing approaches to understanding economic phenomena be subjected to the same degree of critical debate. If an approach was able to explain economic phenomenon better than mainstream economics, then it should be encouraged and taught.
- In a course on economic theories, neoclassical theory should be taught alongside other economic theories (classical political economy, Marxist theory, Keynesian theory, etc.) showing that it is just one among several other approaches.
- The principal elements and assumptions of neoclassical theory (consumer and producer choice, general equilibrium existence theorems, and so on) should be taught with very little mathematics (or with none at all). The essence is to draw the student's attention to the relevance of assumptions and not pay undue consideration to mathematics, which should serve as a tool and not an end.

- A broader conception of human behavior. There is a need to view economic concepts from a broader sense and not limit it to the postulates of neoclassical economics.
- Recognition of culture. There is a need to recognize the effects of culture and institutions in shaping and determining economic behavior and choices. The idea of the “economic man” as a rational optimizer may not take into consideration these effects.
- Consideration of history. This recognizes the dynamic nature of man and his society. It disputes the static study of economics. Processes are emphasized not ends.
- A new theory of knowledge. This new theory of knowledge is one in which the researcher’s values are inevitably involved in making scientific inquiry and scientific statements. It de – emphasizes the positive – normative dichotomy in economics.
- Empirical grounding. There should be emphasis on substantiating theoretical postulates with empirical evidence. This will ensure realism in the study of economics and its explanations of phenomena.
- Interdisciplinary dialogue. The need for economics and economist to be aware of diverse alternate schools of thought as well as its interdependence on other disciplines especially in the social sciences.
- Expanded Methods. Due to the nature neoclassical economic ideas, there has been a preference for mathematics and economic modeling as methods for

analysis. However, there exist diverse methods that are reliable and scientific.

These methods may provide new insights and understanding of economic life.

Other recent key proposals by prominent economist who lean towards the ideas of the Post Autistic Economics movement are:

- Moral and ethical issues should be considered in the study of economics as they are important factors in decision making (Locke, 2012).
- Contributing to the question of the truth-status of economic models with respect to their ability to be applied in the real world. Also, contributing to the fact – value dichotomy which has methodological and substantive ramifications for economics as a profession (Marqués, 2013).
- Recognizing that large corporations (and other economic institutions) often have a substantial social and political power; people are not solitary creatures but social animals; tastes are malleable and particularly so among children and adolescents (Hemenway, 2013).
- Pluralism, democracy in ideas, allowing for intellectual diversity and continuous challenge of humanely accessible truths (Reardon, 2012).

#### **4. Looking Forward and the Economics Curriculum**

The major justification why the teaching of economics has been called autistic is because it is becoming very difficult to relate the postulates of the economist – especially neoclassical economist - with the reality of the world. Of all the key policy proposals of the RWEM, pluralism has been the most important. They have stressed the need for

pluralism in theory, method and scientific inquiry in the study of economics. By this, the RWEM are putting forward their belief that methodological pluralism and intellectual progress are complements. Fullbrook (2001) argued that the demand for a pluralist economics is because it inverts the traditional but implicit philosophical idealism of economics, whereby the approach takes precedent over the object of inquiry, the reality of the latter being admitted only to the extent that it is illuminated by the former.

Economics departments all over the world should reform economics education to include the reflection of methodological assumptions that underpin the discipline. Good and effective economics is one that perceives economic behavior in its wider contexts, and that encourages philosophical challenge and debate. To achieve this pluralism, alternative methods of scientific inquiry have to be put forward, showing their advantages and strengths over mainstream economics (Fullbrook, 2001). One of such methods is institutionalism. This approach, which was popular in the early 1920s but waned during the 1930s, is a pluralist and non – autistic approach to the study of economics. Its basic philosophical tenets as summarized by Mayhew (2001) are:

- Humans create their economies.
- These economies are subject to change by human intervention, in the need to solve perceived problems.
- The method does not proffer permanent solutions or the creation of utopias.
- A variety of tools are employed in order to understand ongoing change and the organization of production and distribution.

Also, the economics curriculum being taught to both undergraduates and postgraduates students has to reflect the needed pluralism. As a matter of urgency, the curriculum – especially in developing economies where economics curriculum is tailored in line with those of developed economies – should reflect diverse methods for scientific inquiry and relevance. However, in a general sense as noted by Fullbrook (2004) and Otsch and Kapeller (2010), these changes in curriculum must reflect the following:

- Consideration of history
- Empirical grounding
- Space for philosophical and methodological debate
- Reduction in the use of mathematic
- Encourage critical thinking

## **5. Conclusion**

“Economics is about people and the society”. Once we – all stakeholders in the economics profession community – realize that economics, like other sciences, is primarily concerned with understanding and explaining economic life, we would embrace the arguments put forward by the Real World Economics Movement. By this realization, we would be able to make economics interesting, present a “more honest” figure of science comprising its controversies and tentative results. We would also be able to make students learn more as well as providing them with the necessary competencies that they need to be effective – the ability to construct a blend of complex observable fact which has empirical and theoretical components - in the labor market.

On a last note, the adaptation of the RWEM proposals, will provide a strong base for training future economist in the process of performing scientific inquiries as well as economic theorizing, that will be both relevant and realistic given the dynamics of the economic world.

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