



Munich Personal RePEc Archive

Neoclassical Economics: The Need for a Reconstruction

Onye, Kenneth U.

University of Uyo, Uyo

2014

Online at <https://mpra.ub.uni-muenchen.de/88501/>
MPRA Paper No. 88501, posted 26 Aug 2018 11:22 UTC

NEOCLASICAL ECONOMICS: THE NEED FOR A RECONSTRUCTION

Kenneth U. Onye
Department of Economics,
Faculty of Social Sciences
P.M.B 1017
Uyo, Akwa-Ibom State, Nigeria
kennethonye@yahoo.com
+2348085957279

Abstract

This paper examines the case being made by the Real World Economics Movement (RWEM) against the prevailing mainstream economics, including the lack of realism in the teaching of economics resulting from uncontrolled formulation and use of abstract mathematical models that lack empirical validity, the lack of pluralism of approach to economic inquiry, and the basic matter of upside-down application of mathematics in economics. It undertakes a critical examination of the key message and major proposals of RWEM, and goes on to show how they can be harnessed to enhance our understanding and explanation of economic realities. The paper draws attention to the fact that neoclassical economic theories has been inhibited by its ahistorical approach to economic inquiry and abstract formalistic methodology which has made it provide very limited understanding of the complex real world economic phenomena. It, therefore, calls for fundamental reform – in the content, structure and delivery – of economics curricula that universities currently offer and teach students.

Popular Quote: Neoclassical economics with its ahistorical approach to economic inquiry and narrow band formalistic methodology brainwashes successive generation of students into viewing economic reality exclusively through its concepts that almost always misrepresent or veil the world.

1. Introduction

Economic theories – the general and scientifically acceptable explanation of economic phenomena – do not represent the world as it is but simplify the explanation of the real world by highlighting certain aspects of it while leaving others in the dark. In the 19th century, this type of situation preoccupied the philosophy of science. However, mainstream economic theories address a different kind of situation: one where it has managed to sideline and suppress other theories¹ that would explain some of the many facets of real world economic phenomena that it leaves in the dark. This is the position of neo-liberalism². Neoclassical economists, rather than use their theories as a tool in the pursuit of knowledge, have made it the required viewpoint to explain all economic phenomena at all times, and in all places and circumstances. Thus, as Stiglitz (1998) rightly observes, economics has suffered ‘a triumph of ideology³ over science’.

Today the state of our subject is so pitifully deplorable that economics as it is currently taught in most Universities around the world neither explains contemporary reality nor provides a framework for critical thinking, reflection or innovation. *Why has this happened?* Some people, including members of economics profession, have managed to hijack the subject and have been using it for instrumental purposes or functions (Galbraith 1958; Galbraith 1987), i.e., to serve their self-interest or enable them project and protect their ideological position, with the result that in the teaching of economics that is currently offered only one approach to economic inquiry, that is to say neoclassical tradition, is presented to students. Students are denied the opportunity of critical and reflective thinking that wide or broad spectrum of analytical viewpoints offer through other traditions such as Marxian, Austrian, Sraffian, Old Institutionalism, New

¹ As we see in Fullbrook (2004), ‘it may be the case that two theories highlight the same aspects of some corner of reality but offer different conclusions’.

² Neo-liberalism was an economic philosophy that emerged among European liberal scholars in the 1930s to avoid repeating the Great Depression of the 1930s which was mostly blamed on the economic policy of classical liberalism. It was an attempt to trace a so-called ‘middle way’ between the conflicting philosophies of classical liberalism and collective central planning. It advocates support for economic liberalization, privatization, free trade, open markets, deregulation and reduction in government spending in order to enhance the role of the private sector in the economy.

³ As Akpakpan (2014, Ph.D class discussions) rightly notes, neoclassical economics is ‘an ideology’, ‘a capitalist ideology’, dressed up in the language of a science.

Institutionalism, Post Keynesianism as well as the better insight and understanding of economic phenomena that expanded methods of conducting inquiries (case studies, discourse analysis and participant observation) avails. This scenario has resulted in crisis in the profession, i.e., the failure of neoclassical theories, a situation where the mainstream economic theories has continually failed to explain or predict economic crises as evidenced in its inability to predict the 2001 Argentina's debt crisis, the 2007/2009 American subprime meltdown (financial crisis), and the 2009 European debt messor even explain these crises after they had occurred not to talk of proffer solutions to them (Fullbrook 2003; Beker 2013).

Here lies the need to rescue the profession from imminent collapse, namely, the need to reform economics curriculum. The call for reform started in June 2000 when a group of French economics students, under the name *real world economics movement*⁴ (RWEM), launched a petition calling for reform of their economics curricula; they wish to “escape from imaginary worlds”, they opposed “uncontrolled use of mathematics”, and called for “pluralism of approaches in economics”. The effect of their petition was overwhelming. The French minister for education, Jack Lang, set up a reform committee, presided by Paul Fitoussi, president of the ‘Observatoire francais des conjontures’ (OFCE) which, in its final report, recommended sweeping reforms in the teaching of economics, both content-wise and structurally. In June 2001, 27 Ph.D students from Cambridge University launched a parallel petition calling for the “Opening Up Economics”⁵. Their petition was signed by more than 600 economist including renowned academics as Mark Blang, James K. Galbraith, Geoffrey M. Hodgson, Kurt W. Rithschild, Warren Samuels and Bruno S. Frey. Two months later, i.e., in August 2001, another petition was launched in Kansas City, United States, the so-called Kansa City Proposal. This international open letter called on economists all over the world to

⁴ The Real World Economics Movement (RWEM) was called Post-Autistic Economics Movement (PAEM) when it was formed in 2000. The term ‘autism’ is a bio-medical term that connotes a lack of communication. Criticisms about the use of the term in economics led to a change in the name of the movement from post-autistic economics movement (PAEM) to real world economics movement (RWEM).

⁵ By “**Opening Up Economics**”, the 27 embattled economics Ph.D student at Cambridge University mean becoming mindful of the limitations of the “competing approaches to understanding economic phenomena”, of learning their domain of applicability”, and of using “the best methods for the question at hand” rather than “restricting research done in economics to that based on one approach only” (see ‘A Proposal for Reform of Economics by French Students’, 2001)

overcome the rigid conceptions of human behavior that sees man as a rational economic optimizer, to take account of methodological, historical and cultural issues in their inquiry, and to engage in interdisciplinary dialogue. In March 2003 economics students at Harvard University launched their own petition, demanding from its economics department an introductory course that would provide them with wide spectrum of analytical views and balance, and that would ‘not only teach students the accepted modes of thinking, but also challenge students to think critically and deeply about conventional truths.’ In June 2003, the world conference of International Confederation of Associations for Pluralism in Economics (ICAPE), together with over forty collaborating associations, was held in Kansas City. Efforts at rescuing our subject have been ongoing since then.

Given the preceding perspective on international call for rescue of economics – the call for reform and total overhaul of the narrowband economics curriculum, i.e., neoclassical economics curriculum that most universities around the world currently offer and teach students– this paper sets out to examine the case being made by the Real World Economics Movement (RWEM) against the prevailing mainstream⁶ economics, their central message and key proposals. The balance of the paper is as follows. Section 2 discusses the case being by Real World Economics Movement against neoclassical economics. Section 3 presents a critical review of the key message and major proposals of the RWEM while section 4 concludes the paper.

2. The Case Being Made by RWEM against Neoclassical Economics

- Lack of Realism in Economics Teaching through Uncontrolled Formulation and Use of Abstract Models that lack empirical validity: In the opening page of their petition for reform of economics program, the French students wished to escape from imaginary worlds. In their words,

“Most of us have chosen to study economics so as to acquire a deep understanding of the economic phenomena with which the citizens of today are confronted. But the teaching that is offered, that is to say for the

⁶ Neoclassical economics is called mainstream economics because it has been so successful in sidelining other approaches (Fullbrook, 2004:1)

most part neoclassical theory or approaches derived from it, does not generally answer this expectation. Indeed, even when the theories legitimately detaches itself from contingencies in the first instance, it rarely carries out the necessary return to the facts ... Furthermore, this gap in the teaching, this disregard for concrete realities, poses an enormous problem for those who would like to render themselves useful to economic and social actors.” (Open Letter from French Students, 2001).

The objection here is not to the use of mathematics at all – or even to the formalization⁷(mathematization) of economics. The objection is rather to the misuse that has been made of mathematics in economics – and in particular to the way it has been used to give a pseudo-scientific façade to a body of theories, i.e., neoclassical economic theories, that cannot meet any of the empirical tests of validity (correspondence, comprehensive and parsimony tests) by which a science is distinguished from crude ideology or mere superstition (Eichner 1983: 517).

Through continual construction and use of abstract models, the neoclassical economists have increasingly made their theories – which their models are supposed to test – progressively irrelevant to understanding economic reality. What has been responsible for this tragedy? Many factors have also contributed to it. First, as Fullbrook

⁷ It has been said that neoclassical economists resorted to increased formalization of their theories due mainly to: (i) Ricardian Vice, i.e., the increased ascendancy of those trained in mathematics at the expense of those trained in more historical methods which reinforced the long standing desire of economists for purely deductive modes of analysis. We can see this playing out in Nigerian Economic Society (NES) where membership is open – even to Engineers, Physicists and mathematicians (ii) their inability to empirically validate any of the four basic elements or theoretical constructs that form the core of the neoclassical microeconomics, namely, the Indifference curve theory of consumer demand, the ‘Isoquant’ that form the starting point of neoclassical theory of production, the marginal productivity theory that forms the basis of neoclassical theory of income distribution and the assumption of positively sloped supply curve. To effectively contain the threat to the established way of thinking posed by Keynesian revolutions, Hicks-Hansen and more definitely Samuelson reformulated the Keynesian ideas in such a way that, taking the form of the IS-LM framework, it could serve as the macroeconomic counterpart of the older neoclassical microeconomic theory now transformed along neo-Walrasian lines. Today the two major theoretical constructs of neoclassical macroeconomics, namely, Hicks-Hansen’s IS-LM theory and the Philips curve like their microeconomic counterpart, still lack empirical validity. They have failed to pass the test of correspondence, comprehensiveness and parsimony which are the sufficient conditions for empirical test of validity; the coherence test (of internal consistency) of a theory being merely the necessary condition for validity of a theory (Eichner, 1983).

(2004) notes, neoclassical economists have as a group committed themselves to believing that all one needs for an exact science is mathematics, and never mind about whether the symbols used refer quantitatively to the real world. What they began as an addiction has now become a habit and to preserve their illusions, neoclassical economists have found it necessary to isolate themselves from non-neoclassicists. Second, because today's economies have drastically changed⁸ from those of the 19th century for which neoclassical economics was invented to describe, neoclassical theories and approaches derived from it can only explain very small proportion of today's economic realities, leaving more and more of it in the dark for students permitted only the neoclassical viewpoint.

- Upside-Down Science through Wrong Application of Mathematics: Neoclassical economics and approaches derived from it have increasingly made itself an upside-down science through wrong application of mathematics. This tragedy is rooted in the original foundation textbooks of neoclassical economics, namely, the works of Walras and Jevons, where the doctrine of upside-down science was explicitly and prescriptively spelled out. As we see in Fullbrook (2013), there are two ways in which mathematics can be used in relation to an object of inquiry. One is to find or invent a mathematics that is isomorphic to, i.e., that fits, the structure and processes of the object of inquiry. This is the proper and scientific use of mathematics. Isaac Newton's project of creating classical mechanics, for instance, was impeded until he invented a mathematics that was isomorphic to the structure he was identifying in the real-world. Another way, but wrong way, of applying mathematics or formalism is to make some assumptions regarding the elements or combination of elements of one's object of inquiry so as to make it isomorphic to a particular mathematics. This of course is upside-down science; an approach that is common in neoclassical economics.

Through uncontrolled use and treatment of mathematics as an end in itself, the neoclassical economists have increasingly formalized their theories and, again, made their theories increasingly irrelevant to understanding economic realities. According to the French students, 'The instrumental use of mathematics appears necessary. But resort

⁸ Today's economies and the societies in which they are embedded have progressively changed as new aspects of economic realities emerge. These include economically induced environmental disasters, rising inequality, corporate globalization and consumer societies, among others.

to mathematical formalization when it is not an instrument but rather an end in itself, leads to true schizophrenia in relation to the real world.’

- **Lack of Pluralism of Approaches in Economics:** As has been noted, out of all the approaches to economic questions that exist, only the neoclassical tradition is generally presented to students. In order to preserve this tradition and continuously suppress other approaches, neoclassical economists have: (i) increasingly managed to block the employment of non-neoclassical economists in University economics departments; (ii) deny ‘non-believers’ opportunities to publish in professional journals; (iii) narrowed economics curricula that universities offer students; and (iv) even banished economic history and history of economic thought from the university curriculum, these being the places where the students might be exposed to non-neoclassical ideas.

3. A Critical Review of the Key Message and major Proposals of the RWEM

Because real world economics movement is not about trying to replace mainstream economics with another partial truth, but rather opening up economics for free scientific inquiry, it outlines certain key proposals for reconstruction of economics in order to save the profession from imminent collapse. This section discusses the key message of RWEM and goes on to take a critical review of its key proposals.

3.1 The Key Message

I wish to summarize the key message of the real world economics movement (RWEM) as follows:

Because mainstream (neo-classical) economic theories has been inhibited by its ahistorical approach to economic inquiry and abstract formalistic methodology which have made it provide very limited understanding of the complex real world economic phenomena, there is need for fundamental reform – in the structure, content and delivery – of economics curricula that universities currently offer and teach students.

Indeed, the narrow band methodological approach that neoclassical economics currently offer students hinders its capacity to generate truly pragmatic and realistic policy prescription. A responsible and effective economics is one that sees human

behavior from a broad perspective and encourages critical and reflective thinking. Most urgently, approach to economic inquiry and analysis must be expanded.

3.2 The Major Proposals

Arising from the meeting of seventy-five students, researchers and professors from twenty-two nations in Kansas City, USA, the so-called Kansas Proposal – eight proposals were made in their petition for reform of economics. This section presents a critical examination of these eight proposals.

- **A Broader Conception of Human Behaviour:** As the Kansas Proposal suggests, the definition of economic man as an autonomous rational optimizer is too narrow and does not allow for the roles of other determinants such as instinct, habit formation and gender, class and other social factors in shaping the economic psychology of social agents. *I think that most skeptics, including defenders of the status quo, would agree with me that man is all too obvious not an autonomous rational optimizer. The usual argumentative gambit of supporters of mainstream viewpoint is that this assumption is used to clarify what a rational outcome would be so that we better understand where man deviates. But as the French students rightly observe in the opening paragraph of their petition, neoclassical economic theories rarely carry out the necessary return to the facts even when it legitimately detaches itself from contingencies in the first instance.*

- **Recognition of the Role of Culture:** Because economic activities, like other social phenomenon, are necessarily embedded in the culture which shape and guide human behaviours, the students and their professor are right to call for recognition of the role of culture in the analysis of human behaviour.

- **Consideration of History:** Economic reality is dynamic rather than static. As economists, we must investigate how and why things change over time and space. Neoclassical Economists have banished History of Economic Thought from universities' curricula because this is where students have the opportunity of being exposed to alternative viewpoints.

- **A New Theory of Knowledge:** The students and their professors argue that the positive versus normative dichotomy which has traditionally been used in the social science is problematic. The fact-value distinction can be transcended by the recognition that the investigator's values are inescapably involved in scientific inquiry and in making scientific statements, whether consciously or not. This acknowledgement enables a more sophisticated assessment of knowledge claims.

My comment here is that the students are partly right and partly wrong. They are right in recognizing that a dichotomy exists. But they are wrong in saying that the investigator's values are inescapably involved in scientific inquiry and in making scientific statements, whether consciously or not. Investigators are not necessarily condemned to bring in a value judgment in all areas of economic inquiry. In certain areas of economic inquiry such as Cost-Benefit Analysis and Welfare Economics, the positive-normative distinction may not be obvious in that the economist must bring in his personal judgment in valuing, say, intangibles like amenities and convenience. But for defender of the status quo, neoclassical economists, to deny that a positive-normative dichotomy exist is derailing because it has been argued, for instance, that it is not up to the economist to say whether or not the distribution of income is fair or unfair or to make any judgment about income distribution⁹. As we see in (Akpakpan 1999:350), what is important is to show that normative statements are not testable in the way that positive statements are. It is also important for the investigator to be objective or unbiased. For instance, the investigator should clearly distinguish those implications of his finding(s) (conclusions) that are based purely on positive-economics analysis from those conclusions that are based on a value judgment.

- **Empirical Grounding:** According to the students and their professors, more efforts must be made to substantiate theoretical claims with empirical evidence. The tendency to

⁹ After David Ricardo had completed his analysis of distribution of the Wealth of the Nation among workers, land owners and entrepreneur (later described by Karl Marx as capitalist) in which he concluded that from the ways things were, worker are bound to remain in perpetual misery, Mill (1948), in response to Ricardo analysis, concluded that in matters of distribution the law of the land, i.e., government, must come in (also see Ricardo 1717, Archived).

privilege theoretical tenets in the teaching of economics without reference to empirical observation cultivates doubts about the realism of such explanations.

My comments here are as follows. Going back to the issue of history of methodology in economics, that is to say, the procedure by which contributors to economic ideas and theories arrived at their idea, it can be seen that bulk of neoclassical economic theories were developed from deductive reasoning. Because deductive reasoning entail making certain general statements (assumptions or hypotheses) and following certain rules of logic to deduce specific conclusion; its conclusion can only be 'true' and 'realistic' if the assumptions are 'true' and 'realistic'. Again, because most theories of neoclassical economics are based on unrealistic assumptions, it is important that these theories are tested with facts. From the methodological standpoint of verificationism, a theory or hypothesis is scientific if and only if its prediction is, at least in principle, empirically verifiable. But neoclassical economists have built an immunizing strategy or wall against their theories (Blaug 1983). They have promoted a movement from a '19th Century methodological standpoint' called 'Verificationism' to a '20th Century methodological standpoint' called 'Falsificationism'. With these immunizing strategies built around their theories, neoclassical economists have made their theories almost always impossible to falsify.

- Expanded Methods: Again, It is all too obvious that procedures such as case studies, participant observation and discourse analysis should not be sidelined, but recognized as legitimate means of acquiring and analyzing data alongside econometrics and formal modeling. As the students and their professors rightly note, observation of phenomena from different vantage points using various data-gathering techniques may offer new insights into phenomena and enhance our understanding of them.

- Interdisciplinary Dialogue: According to the students and their professors, economists should be aware of diverse schools of thought within economics, and should be aware of developments in other disciplines, particularly the social sciences.

My Comment: Here truly a question of political economy approach is raised which, according to Akpakpan (1999:352): (i) considers the history of the problem being

studied; (ii) takes into account the influences of non-economic factors on the problem; and (iii) does not rely exclusively on only one particular technique of analysis but chooses a technique according to the nature of the problem being studied. *Neoclassical economics with its ahistorical approach to economic inquiry and narrowband formalistic methodology brainwashes successive generation of students into viewing economic reality exclusively through its concepts that almost always misrepresent or veil the world.*

4. Recommendations and Conclusions

This paper has shown, with clear analyses that the real world economics movement (RWEM) is not about replacing mainstream economics with another half-truth. There is, therefore, need to open up economics for free scientific inquiry where critical thinking rules instead of ideology. Most immediately, the economics curriculum that universities currently offer and teach students must be reformed (both in structure and content). Such a reform must entail expansion of approach to economic inquiry, recognition of the role of history of economic thought and quelling of the tide of unwarranted construction, study and use of abstract mathematical that cannot help us proffer solutions to economic questions. The reform has already started in some universities around the world. The time to intensify efforts is now.

References

- Akpakpan, E. B. (1999). *The Economy: Towards a New type of Economics*. Port Harcourt: Belpot (Nig.) Co.
- Blaug, M. (1983). *The Methodology of Economics*. London: Cambridge University.
- Beker, V. A. (2013). The Experience of Three Crises: The Argentine Default, American Subprime Meltdown and European Debt Mess. *Real-world Economics Review*, 65.
- Eichners, A. S. (1983). Why Economics Is Not Yet a Science. *Journal of Economic Issues*, 17(2), 507-520.
- Fullbrook, E.(Ed.) (2003). *The Crisis in Economics: The Post-autistic Economics Movement: The first 600 days*. London: Routledge.
- Fullbrook, E. (Ed.) (2004). *A Guide to What's Wrong with Economics*. London: Anthem Press.
- Fullbrook, E. (Ed.) (2013). New Paradigm Economics. *Real-World Economics Review*, 65. <http://www.rwer.worldpress.com/2013/09/27/rwer-issue-65/>
- Galbraith, J. K. (1958). *The Affluent Society*. Boston: Houghton Mifflin.
- Galbraith, J. K. (1987). *Economics in Perspectives: A Critical History*. Boston: Houghton Mifflin.
- Galbraith, J. K. (2001). A Contribution on the State of Economics in France and the World. *Post-autistic Economics Newsletter*, 1, (4), 1-7.
http://www.btinternet.com-pae_news/review/issue4.htm.
- Mill, J.S. (1848). *Principles of Political Economy* (7th Ed.). London: (Reprinted in 1871)
- Ricardo, D. (1717). *On the Principles of Political Economy and Taxation*. Source: Rod Hay's Archive for the History of Economic Thought, McMaster University Canada. <http://www.marxists.org/reference/subject/economics/ricardo/tax/>
- Stiglitz, J. (1998). More Instruments and Broader Goals: Moving towards the Post-Washington Consensus. *Wider Annual Lectures*, 2, Helsinki.
- The Kansas City Proposal: An International Open Letter to All Economics Departments (2001). *Post-autistic economics newsletter*, 8.