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Perspective On Economic Theory

I. Introduction

Merely asking the question "why is our economy so unstable?" leads to a perspective on the economy that is different from that which new rules in Congress, the Administration, and the various public bodies where economic policy is made. The perspective on how our economy works that dominates in the making of policy is rooted in the economic theory of the advisors to policy makers. This economic theory is today's standard economic theory, what is commonly called the neo-classical synthesis, but which Joan Robinson has pithily labeled as "Bastard Keynesianism." This theory is flawed because it cannot explain instability. Because their theory cannot explain instability, the policy advising economists hold that the observed instability is either due to a "devil" or "human error." Instead of the various instances of instability being seen as different manifestations of a common tendency, each instance is treated as a special case. Because instability is viewed as being, in each instance, due to special circumstances the policy advising economists are unable to prescribe measures to eliminate or attenuate instability.

In all disciplines theory serves as both a lens and a set of specified blinders. Like a lens theory focuses thought upon these problems,
that are well defined within the theory even as it blurs the rest
of the possible areas of study. Once thought is focused on a well
delineated area, meaningful relations and descriptions of behavior
within the isolated part of the system are derived. As a result
the theory enables conditional predictions to be made about a limited
set of phenomena.

"Like a set of blinders each theory narrows the field of vision.
Questions that seem meaningful to one not trained in a particular
theory are nonsense questions to one wearing the blinders of the
such theory. If the "nonsense" questions will not go away, if something
out there in the world keeps on posing embarrassing questions to
the practitioners of the discipline, then the theory becomes nego-
tiable -- it is subject to change. A change in theory involves

shifting the lens and adjusting the blinders, it requires the
development of new mechanisms and relations as the instruments of
thought; changing theory is a difficult intellectual process.

From the point of view of standard economic theory the question
"Why is our economy so unstable?" is either a false, trivial, or
nonsense question. It is false in the sense that given the con-
soring of observations by the blinders of standard theory only
stability is observed. It is a trivial question because to a prac-
tioner of standard economics, observed instability, if it exists,
is due to external shocks. Each acknowledged case of financial or
economic instability is explained by the special circumstances of the market or unit that exhibits instability. To a practitioner of neo-classical theory the insistence that an explanation of widespread phenomena by appeal to the particular circumstances of the affected unit will not do, that there must be something about the normal behavior of units of the economy that breeds instability, is a nonsense question. Standard economic theory not only doesn't lead to an explanation of instability as a systemic attribute, it really doesn't recognize that instability is a problem that a satisfactory theory must explain.

The current and past crop of policy advising economists are neither fools nor knaves. In spite of the evidence of the years 1965-76 our political leadership is not exclusively nor even largely the province of fools and knaves. Nevertheless these professional economists and their political patrons live and work within a theory that cannot explain instability. The reason that they are able to do so is because the theory within which they live and work provides answers to deep and serious questions and has had some success as the basis for policy. Before we abandon the neoclassical theory we have to understand its strengths. Presumably we would like a theory that explains instability even as it explains the important phenomena that standard theory handles in good fashion. Our first step is to develop an understanding of what it is that
Instability is a fact. If standard theory doesn't explain instability and nevertheless standard theory remains the basis of policy, then it might be true that the practitioners of the economic policy do not observe instability. History, the drama of 1974/75, and the events of 1966 and 1970 that were detailed in the previous chapters, are interpreted in a different way. One question that must be examined is the nature of observations in economics. Knowledge of the world seems of little importance in academic economics.

Ideological differences lead to differences in perception. Economics cannot be exclusively positive if it is to be a policy science. Each policy decision has a for whom and what kind implications. However above and beyond the inescapable for whom and what kind questions the ideology of Laissez-Faire acts to constrain perceptions. Unfortunately most believers in Laissez-Faire do not understand the limitations upon the power of market processes to achieve socially acceptable results.

In this chapter a number of general and preliminary - perhaps even philosophical - matters are taken up. We need to discuss the questions that standard economics does address, the problem of ideology as an input to economic analysis, and the nature of observations. However this chapter is about theory - it is not yet the
time to do theory. Hopefully by first arguing around the subject of economic theory, the issues of theory will become clear.

In the next chapters we will do theory. First a brief statement of the essential characteristics of standard theory will be essayed. This will be followed by ____ chapters in which an economic theory that can explain instability as an endogenous phenomenon in a capitalist economy, even as it does not ignore the questions addressed by standard theory, is put forth. Once we know the problem and have a theory we can proceed to criticize the existing strategy of economic policy and develop an alternative.