

Contributions to Ideology-Critique of Neoclassical Economics: A reevaluation of existing critiques in search of immanent contradictions



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Motivation

“It has been found that in general there are too few markets for the invisible hand to do its job, in particular its intertemporal job.

One cannot in general exclude multiple equilibria, in the canonical version there is no room for fiat money, indeed exchange or interaction of any kind is not modelled, and so on and so on. Although I never believed it when I was young and held scholars in great respect, it does seem to be the case that ideology plays a large role in economics.” (Hahn 2003: 27)

Motivation

- Ideology-critique a special mode of critique: Develop critique of society via critique of prevalent ‘thought-forms’
- Neoclassicism dominant thought-form of contemporary capitalism
- Guiding question: **What can be learned about contemporary capitalism by criticising Neoclassical Economics?**

Ideologies

Societally induced, distorted explanations of the social

or

necessary false consciousness

(cf. Jaeggi 2013; Mader et. al 2017; Bhaskar 1998)

- i. Causally produced/induced** by societal relations
→ e.g. liberal individualism induced by de jure necessity for individuals to face each others on market as equals
- ii. Misrepresentations/Mystifications** of those relations
→ untrue in the sense of systematically distorted: Only specific aspects of reality explained

Ideology-Critique: A historical example

Marx' Critique of bourgeois ideals of freedom and equality (cf. Jaeggi 2013; Hunt & Lautzenheiser 2015)

- individuals in capitalist society must face each other as free and equal
- circulation (markets) actually sphere of equals
- material conditions systematically undermine freedom & equ.
- production process (outside circulation) produces and requires unequals → laborers are free in double-sense
- Ideological theories of capitalism deal only with surface phenomena (circulation)
- Note: Ideology *false* but *adequate* to societal relations

Ideology-Critique

Ideology-critique a mode of simultaneous explanation and critique (cf. Bhaskar 1998) or analysis and critique (cf. Jaeggi 2013)

Criticising Neoclassicism as ideology requires to explain:

- i. How does it systematically distort societal relations?
- ii. How is it caused by contemporary capitalism?

Critique of ideology is (i) *simultaneous* explanation and critique and (ii) *simultaneous* critique of underlying relations

It exploits immanent contradictions (material or normative) and reveals mechanisms to resolve them

Neoclassical Economics: Historic definition

in contrast to purely methodological definitions (cf. Lawson 2013; Arnsperger & Varoufakis 2006; Colander 2000) neoclassicism defined in relations to capitalist society (cf. Hunt & Lautzenheiser 2015; Krätke 1999; Büttner 2007)

Historical rationale: invisible hand (social harmony of exchange)
→ gradual formalization from marginalism (1870's) to general equilibrium theory: mystifies difference between capital and labor, mutually beneficent exchange (Pareto-optimality)

Welfare Theorems:

”[...] the first fundamental theorem of welfare economics, [is] a formal expression for competitive market economies of Adam Smith's claimed “invisible hand” property of markets“ (Mas-Colell, Whinston & Greene 1995: 545)

General Equilibrium Theory: Welfare Theorems

“The central set of propositions that economists have to offer the outside world – propositions that are, in a real sense, the foundations of Western capitalism – comprises the two Welfare Theorems. These theorems elucidate the relations between general competitive equilibria on the one hand and Pareto-efficiency on the other. They underlie all the looser statements about the desirability of a free-market system.” (Fisher 2003: 74)

- **First Welfare Theorem** provides conditions under which competitive market equilibria are pareto optimal:
 - price-taking behavior
 - complete markets
 - locally nonsatiated preferences
- **Second Welfare Theorem** provides conditions under which any pareto optimal allocation can be implemented through competitive markets:
 - additionally convexity of individual production and preference sets
 - Note: no increasing returns to scale

General Equilibrium Theory - exploring immanent contradictions

- Methodological individualism/Rational Choice Theory & Sonnenschein-Mantel-Debreu Theorems
- Axiomatic deductivism
- A-historicism (no history, no time, no context)
- Methodological equilibration – explanation requires equilibrium
- Symmetry of capital and labor (both naturally given)
- Pareto-normativity & focus on social harmony (exchange)
- **Method implicitly affirmative of explained phenomena**
- Exogeneity of production and technology
- No genuine price theory – central authority
- **No genuine dynamics – comparative statics & intertemporality**

General Equilibrium Theory - static dynamism

“Walrasian equilibrium is really a static notion and we [general equilibrium theorists] have little to say about the “Invisible Hand *Process*”” (Kirman 2003: 473, emphasis added)

Admitted contradiction between dynamic character of economic system and static character of theory cannot be resolved in Neoclassicism!

Comparative statics and intertemporal equilibrium models ultimately static

General Equilibrium Theory - static dynamism: “Bukharin inspired” critique

- Methodological individualism starts from social atoms
- But meaningless without social context: Bukharin reveals implicit collectivism in methodological individualism
- individual presupposes the social (division of labor, prices, existence of previously produced commodities, laborers free of means of subsistence, etc.)
- Consider price: Conceptually prior to formulation of budget set
 - GE seeks to explain prices – the outcomes of collective subjective behavior of individuals – in terms of prices (necessary for the formulation of individual budget sets)
 - only possible resolution: static notion of equilibrium with simultaneous determination of prices & quantities
- Dynamic aspects must be theorized in terms of social, not individual
- **Question:** In what sense is static theory & individualism caused by capitalist relations?

Future Research & Conclusion

- Genuine ideology-critique requires historical and sociological approach: how do current relations of capitalism actually appear? How are they generally perceived?
- **Investigate ideological role of method: methodological equilibration as justification of the explained phenomena**
- Explicit critique of neoclassical subdisciplines with regard to its role in maintaining efficiency of markets (iron fist of government and subtle mechanisms of subjectification): e.g. competition policy or behavioral economics

Might not seem innovative for Marxian thinkers but: Lot of Marx' critique does not apply to GE and new categories need to be developed; e.g. GE has no concept of value



Thank you for your attention!

Happy about critique, comments, questions!!