

Reflections on the state of Economics¹

An introduction to the Special Issue

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¹ This paper, and the Special Issue that it introduces, is written in the memory of Professor Domenico Mario Nuti who passed away in December 2020. For an appreciation of his life and work, see Estrin and Uvalic (2021)

Mario Nuti was a great iconoclast and a vehement critic of capitalism and modern economics which, to a great extent, provides the capitalist system with its intellectual underpinning². Like most economists, Mario would have viewed the capitalist system, in very general terms, as relying on private property and the coordinating power of decentralised decision making (i.e., markets) when rational individuals seek their own best interests. There may be variations in the kind of capitalist systems we observe, but these can be attributed to the differences in the extent of private ownership, or its organisation (i.e., its institutional arrangements (Nuti, 1992a; Hall and Soskice, 2001)), as well as in the degree of self-interest which we assign to individual agents. Economists tend to assume that if markets can effectively coordinate the most selfish of self-interests, they would definitely be able to effectively coordinate less selfish interests. In this way, the door would be opened for the generality of the market systems vis a vis any forms of individuals' social interests provided that everyone agrees that whatever individuals seek, they will seek it in a rational—or reasoned—manner.

The idea that the system of decentralised decision making—i.e., markets—is universal and value free has been around for some time now. Robbins (1935), who is, perhaps, the first to have explicitly advocated a value-free economics makes a simple claim: People may have different ends, but they will always need to allocate resources that are scarce and desirable (the modern definition of economics' subject matter). If that is all that economics is about, it does indeed seem to be universal and value free³. There are, as Robbins puts it, “no economic ends” but rather, “[o]nly economical and uneconomical means of achieving given ends” (Robbins, 1935, 144)⁴. If this is true and the idea of markets as a principle of economic organisation is indeed universal and ethically neutral, then whatever are one's social and moral values, they can all be accommodated by the system of decentralised decision making⁵.

This line of argument provides the foundation stone for the extension of markets from local or national to global levels – globalisation. It also implies that *market socialism* –another of Mario's great interests (Nuti, 1992a)—can be considered as a particular form of *capitalism*. Put differently, there is nothing about market socialism, other than the contents of one's

² He was also highly critical of socialist economic systems; see Nuti (1981).

³ He writes: “Economics, then, is in no way to be conceived as we may conceive Ethics or Aesthetics, as being concerned with ends as such” (Robbins, 1935, 32). In Wicksteed (1933 [1910]) this view is expressed even more brutally by claiming that: “Any relation into which I enter for the fulfilment of my purpose may, in a sense, be called unmoral, inasmuch as it is a means and not an end” (p.182).

⁴ He follows here Wicksteed (1933 [1910])—the presumed English Austrian economist— who claimed that by avoiding wastage, economics is about creating as many means as possible to achieve whatever ends individual/society wish to achieve. Hence, efficiency should be understood as a universal and ethically neutral principle. A critique of this view can be found in Witztum (2011).

⁵ In modern economics, these two principles are embodied in the famous two welfare theorems. The first one which suggests that all competitive outcomes are efficient, also suggests that if efficiency is a universal feature of the solution to the economic problem, then competitive systems are universal. The second theorem promises that if differences in social values are manifested in different conceptions about the desired outcome, then, providing that we can all agree that all socially desirable outcomes should be efficient, all of them can, in principle, be reached by competitive means. Thus, markets are also ethically neutral (but see a critique of this position in Witztum (2019)).

social values, which is in method and principle different from the agenda of welfare economics or Keynesian economics all of which are merely *correction* ideas—aligned with some social values— for an otherwise universal and perfect system of social organisation⁶. From this perspective, a critique of the modern economics becomes a negative appraisal of its implementation rather than a critique of the underlying theory. Different ways of organising ownership structures that allow greater access for workers—or everyone—to capital (and wealth) are not a negation of the fundamentals of modern economics. Instead, they are expressions of the ideas embedded in the second welfare theorem according to which by simply altering initial endowments, we can reach efficiently whatever outcome we may wish to achieve⁷.

We feel that this is a reading of market socialism with which Mario would have been uncomfortable. He was certainly interested in issues pertaining to ownership structures (see Nuti, 1992b), but he did it from a position which saw market socialism as an alternative to, rather than extension of these sorts of economics ideas. As such, changing power relations that are embedded in property rights would not have been enough to generate and support a genuine idea of market socialism where the objectives of economic and social organisation would be different to the one implicitly underlying modern economics and, to a great extent, the capitalist system (Nuti, 1992c). Evidently, adherents of the Robbinsian view would have argued that modern economics has no objectives of its own and therefore, there is nothing about it which is inconsistent with any social values including those embedded in market socialism. The desire of market socialism to use markets to achieve its objectives is nothing but the essence of modern economics.

But clearly this is a flawed position, even though one cannot deny that when market socialism means merely the realignment of property rights, this very much falls into the remit of modern economics and its idea about the universal and neutral nature of markets and competition. Two elements are important in separating market socialism from the functioning of markets. First, one must consider the system's social significance beyond the immediate business of resource allocations and efficiency. Second, one must refute the claim that markets are universal and ethically neutral. Though many economists perceive these difficulties, they usually maintain in their teaching the ideas that markets can rise above social or moral disputations. Moreover, in their research, they rarely attempt to deal with the theoretical difficulties facing the theory in its encounter with the real world. They instead jump into the notion, wrongly attributed to Hume, according to which theory—causal relationships—can only be derived from observations.

These claims for economics of universalism and neutrality are often *ad hoc*. For instance, a great deal of work has gone to explain why agents, in a competitive set-up, will avoid the prisoner's dilemma. While the research objective appears to be specific, to explain an observed outcomes in experimental economics, the general implication is to strengthen the claim for universality and neutrality. However, it was the existence of a prisoner's dilemma which raised doubts about the power of competition in the first place. In so far as one is

⁶ Mario was indeed greatly influenced by Keynesian thinking but his views were perhaps closer to the great Polish economist, Kalecki (Nuti, 1981).

⁷ The most recent expression of this can be found in Piketty (2020) where he proposes the idea of participatory socialism which, too, is nothing more than a correction mechanism of an otherwise good system (see a critique of Piketty in Witztum (2021)).

willing to consider game-based interactions to be a realistic manifestation of the principle of competitive behaviour, one concedes that competition does not lead to a solution to the economic problem (i.e., efficiency). By saying that people can learn to co-operate, we are not really undermining the idea of competitive behaviour but only expanding the means by which competitive individuals are attempting to achieve their ends. In this case, it is through the exploitation of the other which we label as ‘co-operation’.

This, of course, does not mean that the foundations for rejecting the claims of universality and neutrality have not been laid. We are referring to the problem of incomplete markets (and contracts) which suggests that competitive interactions (markets) will not produce an efficient outcome and therefore, will not solve the economic problem of allocating scarce resources (Witztum (2019)). The main impact of this problem was to expose the schism between ideas like allocative and productive efficiency. The absence of markets for many uncertain goods means that the allocatively efficient outcome that theory argues would have materialised had people been able to trade in state contingent claims will not come about when this is replaced by trade in assets. But the efficiency which is lost is really the one about which we socially care most: the allocative one. Does it also mean that productive efficiency—the foundation of material plenty—is also lost?

The manifestation of incomplete markets in the world of contracts means that productive efficiency becomes conditioned on specific ownership structures or the distribution of property rights (Hart and Moore (1999)). This, in turn, means that while allocative efficiency is lost, we may be able to do something about productive efficiency. But accepting specific ownership structures also means that we are limiting the span of distributions of outcome which are consistent with the generation of plenty. In other words, we abandon the notion of ethical neutrality if we wish to make the generation of material plenty rather than allocative efficiency, the main objective of economic organisation.

The truth is that this shift has already happened. We can see this from the focus on GDP per capita as a measure of economic success and on growth as the main policy objective. These suggest that, from the beginning, economics was always about material things. Robbins, and Wicksteed before him, saw the neutrality of economics as stemming from the fact that, regardless of the actual social objectives, it is better to achieve them with material plenty. However, there are two fallacies behind this position. Firstly, to desire material plenty—regardless of the social objective—implies that economics is not value free. Material plenty is not a neutral objective and even if it merely acts to support other objectives, a system that is focused on facilitating it cannot be described as neutral. Secondly, social values and objectives are not all consequentialist in nature. Social and moral values—those things at the heart of any form of socialism—are mainly relational both between individuals (distributional equity) and between contributions and outcomes (allocative equity). Efficiency, in this context, is not a very meaningful concept.

To illustrate, from the perspective of writers like Acemoglu and Robinson (2012) or Piketty (2020), the purpose of economic organisation is to maximise material wellbeing. The former focus on non-extracting institutions and the ultimate sovereignty of the individual; they view the resulting property rights as generating powerful incentives to maximise entrepreneurial activities. The latter believes that material plenty can be both maximised and shared more

equally if property rights were distributed more equally. Both, however, view a system of competitive decentralisation, or markets, as the only way to organise economic activities.

But such an assumption is not the only, nor even the dominant, one in the history of economics. Adam Smith is considered by many as the man to have paved the way for the idea of competitive decentralisation as an ideal form of economic organisation. He was nothing of the sort. Smith strongly believed in the embeddedness of economics within society and its many dimensions. He was not the promoter of the economy as an independent social sphere. We can study economics while holding other social parameters constant, but this does not imply that economics is not influenced by these parameters. Evidently, in Smith, the objective of humans is social approbation rather than material wealth. Though he puts an emphasis on growth, his position is fundamentally moral rather than from the perspective of expediency. With a corrupt moral system, the only way to salvage it from injustice would be through fulfilling the most basic principle of justice which, according to Smith and in line with modern Rawlsian notions, is to guarantee the fate of the worse off. Growth, therefore, is necessary not so much because of the plenty that it generates but rather because of the labourers' wages it increases.

More importantly, in Smith's view, the division of labour made individuals dependent on other individuals with whom they had little in common. This, in turn, led to a corruption of morality. As the division of labour deepened, this led to a vicious cycle in which a personal kind of alienation pushed individuals towards consumption—conspicuous one⁸—as a means of social approbation. In turn, this led to even further division of labour and so on and so forth.

J. S. Mill was somewhat more optimistic. He saw a form of *market socialism* as the future or the progress towards which society was heading. He strongly believed in human progress—triggered by education and the availability of facilitating means—where personal development would lead to a shift from a competitive phase, that is necessary to rid society from stale and debilitating customs, towards greater co-operation that will altogether replace competitiveness. This, in turn, will lead to a rise of co-operative forms of production⁹ that serve justice better¹⁰, but also to the realisation that, once there is enough material wellbeing to fulfil our needs, humans should spend more time on what matters in life: mental culture, moral and social progress¹¹. In other words, for Mill, the future is bright because it is a future of material stagnation.

⁸ Smith's theory predated and, in our view, better explains, both Polanyi (1944) and his great transformation and Veblen (1899) and his conspicuous consumption.

⁹ "The form of association", writes Mill, "which if mankind *continue to improve*, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and work-people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations..."(*Principles of Political Economy* 772-3 *our italic*).

¹⁰ "In [increased co-operation] or some such mode, the existing accumulation of capital might honestly, and by a kind of spontaneous process, become in the end the joint property of all who participate in their productive employment: a transformation which, thus effected,...would be the nearest approach to social justice, and the most beneficial ordering of industrial affairs for the universal good, which it is possible at present to foresee"(*Principle of Political Economy* 791-2).

¹¹ "It is scarcely necessary to remark that a stationary condition of capital and population implies a stationary state of human improvement. There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living, and much more likelihood of its being

Even so, Mill, like Smith, recognised the possibility that this will not happen if society fails to provide individuals with the proper means for individual development. Individuality, for Mill, means the development of one's own self which can only be achieved when people are free to do so. This will happen when people *can command the results of their actions, or efforts and have access to education*¹². Government intervention in the direct distribution of income together with *a universal provision of education* are necessary conditions for competition (in a world of private property) to provide individuals with the necessary freedom to develop their co-operative faculties¹³.

But it is not any education that will help individuality develop and for society to shift to a stage where material wellbeing ceases to be the main objective. "The uncultivated" writes Mill, "cannot be competent judges of cultivation"(PPE 953). Furthermore, if we allow education to be driven by the market (or private interests), this will lead the corrupt system of natural liberty to perpetuate itself. Mill writes: "[t]hose who most need to be made wiser and better, usually desire it least, and, if they desired it, would be incapable of finding the way to it by their own lights. It will continually happen, on the voluntary system, that, the end not being desired, the means will not be provided at all, or that, the persons requiring improvement having an imperfect or altogether erroneous conception of what they want, the supply called forth by the demand of the market will be anything but what is really required"(PPE p.953)¹⁴. In short, though human progress could lead to a world which many socialist thinkers would have liked, the road to it is predicated on non-market means, not market-dependent provision of education, as well as a distribution of income that will allow everyone to command the fruits of their labour. This is not an intuitive characteristic of a system where the efficiency of outcome depends on all economic good being provided through competitive means.

We therefore follow Mario in feeling that the term market socialism may entail in it a certain logical inconsistency (Nutti, 1981; 1991a). Because the conditions for markets to produce an efficient outcome cannot be achieved, a market system cannot fully solve the economic problem, and social thinking cannot greatly benefit the idea of the market? Consequently, we decided that in remembering Mario, we would want to put a greater emphasis on the critique of modern economics rather than on the notion of market socialism itself. Mario was always a

improved, when minds ceased to be engaged by the art of getting on. Even the industrial arts might be as earnestly and as successfully cultivated, with the sole difference, that instead of serving no purpose but the increase of wealth, industrial improvements would produce their legitimate effect, that of abridging labour."(PPE 751).

¹² Ownership could give people full command over the fruits of their efforts but only if there is no interdependence. Once people depend on each other, the command one has over the fruits of one's effort depends on other social arrangements. Moreover, Mill proposes to *alter* the habits of the labouring people by working on their intelligence (education) and poverty (income) (PPE 380). Giving them ownership over a plot of land will not necessarily solve the problem. For the connection between his views on ownership in agriculture and the future of the labouring classes, see PPE 762-3).

¹³ "We must also suppose" writes Mill "two conditions realised, without which neither Communism nor any other laws or institutions could make the conditions of mankind other than degraded and miserable. One..is universal education; the other, a due limitation of the numbers of the community."(p.209).

¹⁴ His conclusion is quite striking: "any tolerably civilised government may think, without presumption, that it does or ought to possess a degree of cultivation above the average of the community....it should therefore be capable of offering *better education and better instruction to the people, than the greater number of them would spontaneously demand*"(ibid our italics).

highly critical thinker, and, in that spirit, we propose that the better we understand the limitations of modern economics, the better equipped we become to think about different social-economic orders.

In devising this Special Issue, we therefore decided to approach individuals who have spent a great deal of their research life questioning certain aspects of modern economics. We asked them, in light of their own research agenda, to reflect on the state of modern economics hoping to receive thought-provoking essays on the various difficulties of modern economic thinking.

We thus collated direct reflections on market socialism in the form of Roemer's contribution which is focused on cooperation in production that emanates from a behaviour rather than the alignment of ownership structures. We have the more general reflections by Sturn about the influence of the dilemma between scientism and ideology on the evolution of economic thinking. Steiner offers an examination of economic sociology and its relations to political economy culminating with a historical socio-economic approach to the question of inequality. Cogliano, Veneziani and Yoshihara offer a new look on the question of labour values in Marx and their ability to explain at least some laws of the capitalist system and in particular, the relation between profitability, technical progress, and accumulation. Schefold returns to the old Cambridge controversies on the theory of capital and examines whether it is still a relevant critique and whether there are new issues which keep the question of technology and distribution wide open. Finally, Putterman considers issues of trust, social capital and institutions. His starting point is that it is inappropriate to base economic analysis on the idea of individuals as self-sufficient, disconnected atoms of society; rather they have basic needs for connection and belonging to a society. As with the other papers in this Special Issue, this brings us to the critical themes present throughout Mario Nuti's work.

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