This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

FESSUD

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE DEVELOPMENT

Working Paper Series

No 190

The Endemic and Systemic Malaise of Mainstream Economics

Ben Fine

ISSN 2052-8035

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

The Endemic and Systemic Malaise of Mainstream Economics

Author: Ben Fine

Affiliation: SOAS, University of London

Abstract: Tracing the broad outlines of mainstream economics from the marginalist revolution to the present day, this paper demonstrates how it has become increasingly subordinate to a technical apparatus and a technical architecture, TA^2, that puts microeconomics and mathematical methods to the fore at the expense of systemic macroeconomic understanding and qualitative methods. This has had a number of effects, including the failure to explain the Global Financial Crisis, GFC, and the difficulty of moving beyond it, as well as the absence of the concept of financialisation from the mainstream even though it is increasingly becoming commonplace across other disciplines and fields of study. Instead, the mainstream has at most responded to its deficiencies by "suspending" TA^2, as with behavioural economics for example, both continuing to rely upon it and to add other, generally inconsistent, approaches on a more or less ad hoc basis. Moreover, whilst as the tip of the iceberg, the GFC has exposed the sore limitations of the mainstream in the field of finance, the same inadequacies persist for other major "macroeconomic" topics such as distribution, technical change, corporate restructuring, globalisation and the relationships between economic and social development and change.

Key words: History of Economic Thought, financialisation, Global Financial Crisis, heterodox critique of mainstream

Date published as FESSUD working paper: December 2016

JEL Classification: A12, A14, B20, B50, G01

Contact details: bf@soas.ac.uk

Acknowledgments:

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800.

Website: www.fessud.eu

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

The Endemic and Systemic Malaise of Mainstream Economics[1]

Ben Fine

1 Introduction

The poverty of mainstream, orthodox, neo-classical economics, I will use the terms interchangeably, in the wake of the crisis has become something of a cliché. As argued elsewhere, in the entirely different context of ethics, economics has become shown to be "unfit for purpose", Fine (2013), and has even been accepted as such by its own practitioners. A striking if far from uncommon illustration of this is revealed by the work of Oliver Blanchard, erstwhile Chief Economist at the IMF. In the abstract of Blanchard (2008), a working paper with presumably relatively limited delay to publication, he suggests, emphasis added:[2]

> For a long while after the explosion of macroeconomics in the 1970s, the field looked like a battlefield. Over time however, largely because facts do not go away, a largely shared vision both of fluctuations and of methodology has emerged. Not everything is fine. Like all revolutions, this one has come with the destruction of some knowledge, and suffers from extremism and herding. None of this deadly however (sic). **The state of macro is good.**

Just a short time later, Blanchard had entirely changed his tune, having in the interim joined the IMF, Blanchard et al (2010). Effectively five "confessions" were made of the mea culpa variety, in explaining how the state of macro was no longer good, that: low inflation should be a primary target of policy; this could be achieved through the single instrument of the interest rate; fiscal policy was of limited significance; financial regulation was not a macroeconomic matter; and, with the Great Moderation, continued stability was more or less guaranteed.

No doubt this commendable turnaround was prompted by the Great Financial Crisis, the GFC, something that had been presumed to have been rendered extinct, as if a Black Swan event. However, turnaround as such is insufficient. It remains to be shown why macroeconomics should not only have become so complacent but to have done so on the basis of a set of propositions that can only be considered to be narrow and ill-conceived even in the absence of the prod to reconsider them in light of the GFC. In other words, it is not simply a matter of confessing to being foolish, not as an individual but as a profession, but also to understand how such foolishness could come about and what can be done to remedy it and make sure it does not happen again.

This is the purpose of this paper. But it also covers wider terrain. For, first, whilst in particular, the poverty of macroeconomics has been exposed by the GFC, this can itself be misleading in revealing the discipline's weaknesses, and the reasons for them, through an undue focus on how finance as such has been handled as it understandably focused attention. Indeed, it will be argued that such deficiencies as are revealed and exposed by Blanchard in this way are merely the tip of the iceberg in terms of what are considerably larger and deeper inadequacies in mainstream economics and, of course, not just macroeconomics. Second, this will also shed light on why the response of the mainstream to the crisis has in practice been extremely limited, with little prospect for major change in either teaching or research.[3] Third, this is in part the consequence and reflection of the marginalisation of alternatives to the mainstream, of pluralist or heterodox economics, that is both systematic and continuing.

This paper is organised as follows. It charts how mainstream got to be how it is across three sections, beginning with the passage from the marginalist to the formalist revolution in Section 2. This is then followed in Section 3 by an account of the evolution of mainstream economics after the second world that ultimately witnessed the subordination of macroeconomics to an extremely reduced microeconomics at the time of the GFC (even if not as extreme as the New Classical Economics that preceded and influenced it). Section 4, through reference to economics imperialism, accounts for how the mainstream has incorporated material from outside of its traditional analysis and has widened its scope of application. This has not, however, given rise to a genuine interdisciplinarity and has served more to veil rather than to address the reduced substance of the mainstream, whilst further consolidating its command of the discipline at the expense of alternative approaches. In this light, the final section suggests the prospects for the transformation of mainstream economics as a discipline are extremely bleak (although heterodox economics and political economy is prospering outside it), unless major external pressures are exerted upon it to change.

2 From Marginalist to Formalist Revolution

It is uncontroversial that over the past forty years, macroeconomics has become increasingly wedded to microeconomics. It warrants charting how this has come about over a longer period, going back at least to the marginalist revolution of the 1870s. This set in train a focus upon the optimising behaviour of individuals, whether in supply (basing itself on cost or production functions) or demand (utility functions in practice although amenable to more general formulation in terms of fixed, well-behaved preference orderings).

In this light, the passage from the marginalist revolution to what has been termed the "formalist revolution" of the 1950s was marked by a particular technical problem – given utility and production functions and optimising individuals, what are the maximal restrictions that can be placed on the functional forms taken by supply and demand curves (whether for theoretical or empirical purposes in estimation). Ultimately, this issue was resolved through the Slutsky-Hicks-Samuelson conditions. However, for my purposes, this is of lesser significance than the process by which the results were obtained and on which they depend. I have described this as an "implosion", as the casting of the problem was systematically reduced in ways that allowed it to be solved, throwing out whatever qualifications might be necessary and, it might be argued, losing sight of the original motivation of seeking to explain the determinants of supply and demand even if posed at the level of the individual agent.

Essentially, this implosion involved two processes. The first was in setting the problem for which it became essential to assume that utility is given and fixed, that its maximisation is the sole motive, and that goods are essentially defined by their physical properties and have no social content as such or in forming and fulfilling the subjectivities of consumers.[4] Similarly, for production, technology itself is given and conceived of as merely a (narrowly conceived technical) relationship between inputs and outputs. Such starting points necessarily preclude many of the issues that not only determine supply and demand but also what constitute their very nature. On the other hand, and second, even taking this implosion as starting point, merely allowing for optimisation to be achieved required further technical assumptions to be made, such as diminishing returns.

In short, the goal of establishing supply and demand curves, and of basing them on utility and production functions, became part and parcel of a method in which modelling assumed a high priority. At the time, and in retrospect, this has been described and justified as representing the deductive method and, falsely, seen as resembling the methods of the natural sciences. But a critical point of departure from the latter is the lack of basing assumptions on empirical observation, or some form of realism. Admittedly, individuals do (as well as do not) pursue self-interest but it is apparent that the reliance upon utility and production functions and individual optimisation (to be termed the mainstream's technical apparatus) is more or less arbitrary other than in pushing forward a solution to the problem posed on its own terms as opposed to those of the functioning individual let alone economy.

In some respects, then, the development of microeconomics in these terms might be thought of as not only an original sin, reflected in the implosive disregard for other factors and methods, but the transformation of that sin into virtue as far as the mainstream is concerned. This is also characteristic of the other great issue arising out of the passage from the marginalist to the formalist revolution, the development of general equilibrium theory. This, setting what will be termed the mainstream's technical architecture,[5] unquestioningly aggregated over individuals subject to the technical apparatus, to discover a given set of prices at which supply and demand will be equal to one another across all markets simultaneously. Again, without going into details, general equilibrium theory was propelled by the problem it was seeking to solve, discarding any obstacles in the way of seeking out the existence, uniqueness, stability and (Pareto) efficiency of such an equilibrium, consolidating the ethos of sin/virtue around the methods and assumptions involved. Indeed, it is no exaggeration to suggest that de jure, general equilibrium theory is conducive to rejecting its own relevance for understanding the economy given the thicket of assumptions and presumptions underpinning its construction. But de facto, these reservations are not only set aside in assuming, often implicitly, that general equilibrium does or could prevail, but also that the approach and assumptions attached to it are sacrosanct – not, it should be added, in the sense that they are always all made but that they are open to be adopted or not at the discretion of the discipline according to purpose and convenience, a point taken up later in the context of "suspension".

3 From Formalist Revolution to GFC

This is, however, to anticipate (the consequences of) the burgeoning influence of microeconomics. Crucially, though, over the period of the establishment of the technical apparatus and technical architecture, or TA^2, especially in the 1930s, its presence and influence within the discipline was subordinate to other approaches. Most obviously, in retrospect, is the rise of (Keynesian) macroeconomics as its complement, slightly later but no less rapid and influential, together with what would now be thought of as heterodox economics, especially old institutional economics and the more general traditions of inductive economics, each of which dovetailed with study the of the history of economic thought as well as economic history and contemporary social and economic developments. This rendered monopolisation, corporate behaviour and organisation, labour relations, business cycles, distribution of income, and so on, subject to close attention.

In this respect, coming out of the second world war, there were three broad fields within the discipline – macroeconomics, microeconomics and a mixed bag of applied fields which was soon to incorporate development. Each flourished over the post-war boom. Whilst macroeconomics was captured by the so-called Keynesian neo-classical synthesis, IS/LM, it became heavily influenced by the formalist ethos attached to microeconomics, not least in being reduced to modelling quite apart from expunging the more radical elements of

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

Keynesianism attached to the nature of the financial system (reduced to the liquidity trap by the synthesis as a special case of failure of Walrasian adjustment) and the role of uncertainty (reduced to risk). Nonetheless, the IS/LM framework in principle and in practice retained a distance from microeconomics, with some sort of commitment to systemic analysis, primarily through close attention to the determinants of macroeconomic aggregates and how they interact (consumption, investment, demand for money functions, etc). Applied fields tended to forge their own independent paths according to their subject matter but, of crucial significance, they did so in parallel with the core division between microeconomics and macroeconomics (one notable exception being the more or less vacuous field of welfare economics, deriving from Graaff (1957), and its telling contrast with public economics as was).

The evolving relations between the latter have, however, increasingly involved the subordination of macroeconomics to microeconomics, surreptitiously to some degree during the post-war boom but deliberately and precipitously in its wake.[6] This convergence of microeconomics upon macroeconomics inevitably involved a corresponding convergence not only upon general equilibrium but also upon select elements of its associated TA^2. Here, though, it is important to disentangle two different aspects of general equilibrium. One is the reliance upon optimising individualism, and hence methodological individualism of a special type. In general, and in its full application, this had to wait upon the New Classical Economics, after which it continued to hold sway, even in new Keynesianism's breach with this extreme form of monetarism and reduction to microeconomics (see below).

The other aspect of general equilibrium is reliance upon Walras' Law - each (intended) supply must be matched by an (intended) demand and so the aggregate of all supplies and demands must sum to zero.[7]

This is important in underpinning Patinkin's rejection of the classical dichotomy, itself an immediate consequence of the search to find compatibility between microeconomics and macroeconomics. What Patinkin showed is, first, that the classical dichotomy could not

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

hold alongside Walras Law and, effectively, lack of money illusion across whatever agencies (not necessarily individuals) determine supply and demand. For, with separate real and monetary economies, a hypothetical doubling of prices to explore the consequences for supply and demand would yield no change. Presuming, for convenience, that all goods markets are in equilibrium, they would remain so. But, with a fixed supply of money, and a positive (presumably proportionate) increase in demand for money to undertake whatever real transactions are intended, there would be excess demand for money, violating Walras' Law.

Patinkin draws the conclusion that the classical dichotomy must be rejected and, by the same token, money matters to the real economy. Equally, the homogeneity postulate is also rejected unless taken to hold over prices and money. This all leads to the real balance effect appearing in the real economy but with neutrality of money being restored in the long run. An increase in money does not change the equilibrium in real terms, it only changes the price level and the (unspecified) path to that unchanged equilibrium.

There is a point of running over these well-known results, generally if not universally incorporated into macroeconomics, and necessarily so where this aspect of general equilibrium is respected. It is that it is indicative across a number of dimensions of steps taken in macroeconomics that laid the foundation for the impoverished state of macroeconomics even if not directly responsible for it.

First is the dependence of macroeconomics upon an unchanged, unique, presumably efficient (or someone might do something about it), long-run equilibrium around which macroeconomics came to focus in terms of paths of adjustment. Second, then, and more broadly is draw a firewall between short and long runs, conflating the different ways of understanding these as if they were all the same: namely, in equilibrium or not; the passage of time; and the relative speed of adjustment of variables (itself subject to theoretical and empirical dispute, not least between Keynesians and monetarists over quantity and price adjustment). Only through this conflation was it possible both to allow for short-run adjustment without long-run effects (for a recession, for example, surely reduces the levels of investment upon which the equilibrium rests). Third is the facile treatment of money as both fixed, or fixable, in supply, but also subject to equilibrium with demand as opposed to being part and parcel of a financial system that is more or less effective in mobilising and allocating resources for investment.[8] Last, Patinkin's contribution is indicative of what could be done, and how, to join micro and macro consistently together within the mainstream but, if only implicitly and subsequently overlooked, other aspects of the dualism between micro and macro, major preoccupations of applied economics and interwar institutional economics, were simply disregarded because they could not be addressed. This includes monopolisation, labour relations, technical change, and business cycles as part and parcel of the growth process (for example, there is no way that Schumpeter's creative destruction could fit across the macro/micro divide).

Indicative of these developments is the rise of mainstream growth theory, not least through the Solow growth model of 1956. It represents the separation of growth theory from macroeconomics. And it continues to remain unclear whether growth theory is a part of macroeconomics or microeconomics in part because it is the technical apparatus of microeconomics, specifically the production function, which has underpinned what is essentially a macroeconomic issue, the long-term performance of the economy. And, of course, the theoretical and empirical traumas associated with such growth theory in the wake of the Cambridge Capital Controversies are simply set aside in the continuing commitment to the associated technical apparatus despite its lack of consistency and coherence even on its own terms.

In short, the relations across microeconomics, macroeconomics and other more applied fields were certainly not fixed nor without flaws but they did constitute a compromise around responsibility for subject matter even if with fluid boundaries. This compromise was rudely shattered by the demise of the post-war boom, the credibility of Keynesianism and the monetarist counter-revolution, spearheaded by Friedman and taken to extremes by New Classical Economics, NCE. Whilst Friedman's vertical Phillips Curve both placed (adaptive) expectations at the heart of macroeconomics and reduced them to risk at the expense of uncertainty, the NCE denied even the minimal role that Friedman allowed the state, to affect unemployment albeit at the expense of an ever accelerating/decelerating price level.

The state ineffectiveness result (as well as the Lucas critique) involves the culmination of the convergences previously identified, not least the presumption that there are some (dogmatically privileged) irreducible fundamentals such as resources, preferences and technologies from which all else derives,[9] and their location within an extreme set of assumptions, and hence, consequences, not least representative individuals, perfectly working markets, rational expectations and state ineffectiveness. Notable for the latter, in particular, is that it follows less from the nature of the theory itself (although this is essential) than from the way in which the state is itself conceptualised. In a world in which there is a given long-run equilibrium, representative individuals with given utility and production functions, where there is no health, education, welfare or industrial policy, no conflict over the distribution of income, and so on, the state is reduced to at most an individual with some special powers to shift supply and demand. It is hardly surprising given the powers of individuals in conditions of perfectly working markets that such a reduced state should be powerless in face of Ricardian equivalence-type results. The state is only enabled to do what individuals can and do neutralise.

Effectively, the NCE reduced macroeconomics to the consequences of monetary shocks. It was soon complemented by real business cycle, RBC, theory in which fluctuations in the economy are perceived to be the consequence of shocks in the rate of productivity increase, relieving the analysis of the need to consider monetary factors altogether. NCE and RBC theory were complemented by the efficient market hypothesis, EMH, for financial markets to form a troika around which not only should state intervention be minimised but in which the free operation of financial markets could also provide for the best of all possible worlds.[10]

The troika, as critical point of departure, provided the basis for the new Keynesianism or New Consensus Macroeconomics, NCM, leading to Blanchard's assessment that the state

FESSUD
This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

of macro is good. But the NCM accepts as much, if not more, of the NCE than it rejects. It retains rational expectations, representative individuals and micro-foundations. Where it departs is in merely allowing for some markets to be inefficient in the limited sense of not clearing instantaneously. The result is that government policy can be effective in a limited way through interest rate manipulation, reflating or deflating the economy by decreasing or increasing it. This does, however, build inflationary inertia into the system, and higher interest rates will be needed to reduce inflation, inflationary expectations and expectations (or credibility) of government policy. Whilst it has been argued that this unduly neglects the role of fiscal policy, this is not a matter of choice but of the logic of the model since any fiscal expansion will be neutralised by countervailing private reduction in expenditure (Ricardian equivalence still holds in the "long run") as a consequence of the model being tied to a given long-run equilibrium and rational expectations.

This more or less completes our review of how did it get there as far as macroeconomics on the cusp of the crisis is concerned. It has been subject to a division between macroeconomics and microeconomics (with a correspondingly separate terrain for an increasingly marginalised applied economics as it became reduced to microeconomics), a reduction of microeconomics to TA^2, the separation of short and long runs, a subordination and eventual reduction of macroeconomics to microeconomics, the driving of such macroeconomics to extremes of rational expectations, perfectly working markets and representative individuals, thereby reducing both the conceptualisation and the effectiveness of the state, and at most the mildest of reactions against these extremes to give rise to the NCM.

Crucially, the current world of mainstream economics is a far cry from that which prevailed in the post-war boom even though there are many elements of continuity. This is so much so that even those who played some considerable role in this evolution seem aghast at what has been (or they have in part) created. For Solow:[11]

> Suppose someone sits down where you are sitting right now and announces to me that he is Napoleon Bonaparte. The last thing I want to do with him is to get involved

> in a technical discussion on cavalry tactics at the Battle of Austerlitz. If I do that, I'm getting tacitly drawn into the game that he is Napoleon Bonaparte.

Even Milton Friedman lost patience with the developments in economics that he had done so much to spawn, bemoaning the discipline had become "an arcane branch of mathematics".[12]

Usually omitted from the oft-quoted Solow is how he continues from above:

> Now, Bob Lucas and Tom Sargent like nothing better than to get drawn into technical discussions, because then you have tacitly gone along with their fundamental assumptions; your attention is attracted away from the basic weakness of the whole story. Since I find that fundamental framework ludicrous, I respond by treating it as ludicrouc – that is, by laughing at it – so as not to fall into the trap of taking it seriously and passing on to matters of technique.

This is significant in drawing a distinction between what is and what is not ludicrous with the presumption that Solow himself is well within the correct side of the border. This reflects his dependence upon a wider set of less extreme principles applied on a much narrower scope of analysis. He is, for example, extremely hostile to new growth theory in minor part because of its false representation of old growth theory as predicting convergence which it did not.[13] For, in major part, Solow does not consider that the old growth theory was intended to explain productivity change within, let alone between, countries as it depended upon country-specific non-economic variables that had been excluded from the analysis (which, after all, only drew upon weighted combinations of inputs to measure technical change as a residual from warranted output increases). Yet, Solow's reduction of growth within a country to the microeconomic, technical apparatus of a single production function might itself be considered ludicrous (and invalid, as demonstrated by the Cambridge Critique).

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

4 Economics Imperialism

Such a digression on the relationship between old and new growth theory raises the more general issue of the scope as well as of the content of economic analysis. For, so far, the focus has been upon the way in which macroeconomics has been reduced by the processes involved. Most obviously, and recognised as such, in the wake of the GFC, the reduction of the analysis of money to supply and demand, mediated as a market by the rate of interest and wedded to a greater or lesser extent to the EMH, represents the most impoverished treatment of the financial system by confining it, however well conceptualised as such, to the nether regions of microeconomics whilst the financial system in practice was busy preparing itself for the most spectacular of macroeconomic displays.

In this respect, it is crucial to recognise that the problem with economics is not that it has in some absolute sense excluded consideration of relevant factors and issues from its scope of analysis. Far from it even if this is the case for its macroeconomic analysis as covered in the passage to the NCM. Indeed, as a discipline, economics is now more far-ranging than ever before in the scope of analysis and variables that it incorporates. Accordingly, it is essential to understand how this is the case and yet that macroeconomics can have been as it is.

The answer is to be found in the evolution of economics imperialism by which is meant the increasing application of (an evolving) mainstream economics, primarily microeconomics, to other social sciences. This essentially has its origins with the formalist revolution of the 1950s. For, having established the microeconomic principles attached to TA[2], it was at least implicitly recognised that they were subject to a tension that can be termed the historical logic of economics imperialism. Initially, the microeconomic problem was posed as addressing the implications of the optimising individual in a market context, to explain supply and demand in response to prices leaving aside other motivations for individual behaviour and social determinants. However, and this is the logic, once the problem was solved and the methods established with credibility as a core part of the discipline, it became apparent that the technical apparatus of utility and production functions is of universal application without confinement to the market and to supply and demand. This pushed for wider applicability of the technical apparatus, with success contingent upon disciplinary acceptability.

In what is termed the first phase of, or old, economics imperialism, especially associated with Gary Becker, the principles are applied outside the market but as if a market is present. Prior to the demise of Keynesianism, this gave rise but was confined to three notable successes – cliometrics (the new economic history), public choice theory (politics as horse trading subject to costs and benefits) and human capital theory (education and skills as if reduced to an investment good). However, with the monetarist counter-revolution and the subordination of macroeconomics to microeconomics, economics imperialism enjoyed greater leeway, not least engaging fields within economic itself, most notably macroeconomics but also, for example, the new development economics (although this was based on the old economics imperialism).

However, paradoxically, the greatest impetus to the second phase of, or new, economics imperialism derived from a reaction against the analytical thrust of the first in its reliance upon perfectly working markets. In part, this was motivated by the wish to restore Keynesianism through rejecting the instantaneous market clearing attached to the NCE. In doing so, reliance was placed on explaining inefficient, sticky or absent markets through microeconomic principles by setting aside perfect for asymmetric information on one or other side of the acts of exchange, with Akerlof's market for lemons the paradigmatic exemplar.[14] In this way, the non-market became amenable to analysis in the much more palatable form (to economists and non-economists alike) as the response to market imperfections as opposed to the reflection of market perfections.[15] The result was to induce a whole new range of fields extending economic analysis to the non-economic, or revitalising those fields that had previously been subject to the old economics imperialism. By the same token, most of the disparate fields, dubbed applied economics earlier, came under the sway of microeconomics, with mathematical models and econometrics displacing inductive methods and content.

Six aspects of the second phase of economics imperialism are worth highlighting over and above its scale and scope of subject matter and disciplinary coverage. First is that the marriage of TA^2 with concepts from the traditions, methods and theories of the other social sciences is inevitably, despite being primarily on the terms of economics, conducive to inconsistency if not inchorence. Generally, for example, enriched content in the motivation underpinning individual behaviour raises questions over where each form of behaviour begins and ends, and the use of social categories, such as gender, race or class begs the question of how these are compatible with methodological individualism. In other words, economics has now become subject to what can be termed "suspension", prioritising its TA^2 more or less unquestioningly but being prepared more or less arbitrarily to set it aside as the determinant of behaviour in deference to other explanatory factors. Significantly, both the confidence with TA^2 and the timing of the inclination to complement it with other factors is highlighted by the commentary of Herbert Simon (1999, p. 113) who suggests of the 1930s that he offered economics two gifts, "organizational identification" and "bounded rationality". He bemoans the fact that, "The gifts were not received with enthusiasm. Most economists did not see their relevance to anything they were doing, and they mostly ignored them and went on counting the angels on the heads of neoclassical pins". Similarly, despite being developed by mainstream economists soon after the second world war, game theory was only heavily integrated into mainstream economics once its potential (suspended) inconsistencies with individualism could be overlooked – the need, in light of conjectural variation, to take a view of other players' world views and vice-versa so that preferences and actions are inevitably interdependent and certainly not conducive to single equilibrium. In short, game theory and behavioural economics have attained a particularly strong presence within the mainstream as they allow for an almost unlimited scope and are conducive to policy analysis that is far more rounded than that relying upon TA^2 alone.[16]

Second, such ill-considered promiscuity in the promotion and suspension of its own economic principles has itself developed to such an extent that it can be considered a third or newest phase of economics imperialism, one in which the basic principles have been more or less discarded altogether leaving behind a shell of mathematical modelling and econometric estimation. This has, for example, led the leading exponent of critical realism, Tony Lawson (2013), to argue that essentially there is no such thing as neoclassical economics (in part by reference to how Veblen defined it which is hardly relevant to the present day) and to characterise (the deficiencies of) the mainstream in terms of its being reduced simply to reliance upon deterministic mathematical models in search of empirical regularities (and corresponding social ontology). This is, however, to overlook that the principles of the mainstream, organised around TA^2, have been far from absolutely suspended and continue to lie at the centre of and inform the vast majority of teaching and, if less so given the novelty of suspensions, research within the discipline. In the event, though, the character of the third phase of economics imperialism is well captured by the terminology of freakonomics and the economics of almost everything.

Third, this latest phase of economics imperialism gives rise to an extraordinary extension of scope but in ways which are fragmented and incoherent. There is simply a proliferation of fields and analyses with little or no unifying frame of analysis, connecting them to one another, other than (suspended) commitment to TA^2 as well as contingent ideological predilections in favour of the market (as has been the case for free trade, for example), or otherwise (as for minimum wages). With a starting point in TA^2, and the determinants of supply and demand upon the market, economics has reached out to the world beyond these in a big bang of filling out the rest of the universe. Such anarchy is reflected, for example, in the simultaneous development of the new institutional economics and the application of social capital within economics, each of which has separate intellectual origins, but each of which performs the same function of accounting for the non-economic's impact upon the economy. Yet, these two literatures sit side-by-side with little or no interaction between them, as in the work of Nobel Prize winner, Elinor Ostrom, Fine (2010a). And, in addition, the social capital and rent-seeking literatures incorporate exactly the same analytical frameworks whilst drawing entirely opposite conclusions concerning the impact of the non-economic upon the economic, Fine (2010b). Much the same lack of unifying framing of the discipline is characteristic of more insular economic analysis itself, in contrast for example to the Keynesian/monetarism world visions (or, indeed, those of classical political economy). After all, we are primarily left with the vision that some markets work well and some do not, which means that the same applies to macroeconomies.

Fourth, this is all indicative of what has been termed bringing back in, BBI. As outlined, the TA^2 was established by an implosion, the systematic exclusion of any factor, method, realism or even narrow technical assumption that stood in its way. Economics imperialism's big bang has ultimately seen that implosion reversed, with TA^2 exploding within the discipline and across other disciplines. Although there tend to be no go areas, most notably those social sciences in the wake of postmodernism engaging in the meaning of economic and social activity, ethnography and so on (and especially, in this light, the world of consumption within the other social sciences which is not reducible to fixed utilities/identities and symbolic content of goods), BBI is quintessentially the inconsistent/incoherent form taken by the suspended character of economics imperialism. This is precisely and perversely because TA^2 could only be established by precluding the content which is now brought back in to be explained or to be used as explanatory variable (thereby subsequently allowing for what essentially undermines the starting point).

Fifth, and more generally, this is indicative of both the strengths and the weaknesses of the mainstream. The intellectual, institutionalised strengths lie in the unquestioned commitment to TA^2 even though it is subject to a suspension that might have led it to be challenged in earlier times (through bounded rationality and/or game theory, for example, that are now allowable). The weaknesses are twofold. On the one hand, it is accepted that the discipline's core principles are incapable of explaining the economy let alone broader issues and, so, it is necessary to range beyond those principles to include an unspecified and unspecifiable set of non-economic variables and analyses.[17] On the other hand, the corresponding explosion across the other social sciences to explain the economy let alone the non-economic (as economics imperialism) exposes the discipline to alternative methodologies, methods, theories and conceptualisations with which it is entirely incompatible and both outdated and extreme, as is evidenced for example in its reliance upon methodological individualism, empiricism, deductivism and so on.

Sixth, at least intellectually, this explains the absolute intolerance of the mainstream not only to alternative approaches but also to fields such as the history of economic thought and the methodology of economics. So intellectually fragile is the mainstream to alternatives that it can only prosper by marginalising and failing to engage with them other than on its own narrow terms, if bolstered by suspension and BBI. Indeed, this is rationalised by stigmatising heterodox economics for lacking the supposed scientific rigour associated with the mainstream's theoretical and empirical methods, even though these border on the inconsistent and incoherent and are from the borders of the scientific methods in the natural sciences that are putatively emulated.[18]

5 Prospects

The purpose of this wide-ranging overview of the discipline in a broader context is to explain why the mainstream has proven incapable not so much to explain the GFC, and to offer policy to move beyond it, but to be unable to respond to this lack of capacity itself. It is not because of its lack of scope of analysis, given the pervasive reach of economics imperialism, nor even, as most would suppose, the deadweight path dependence of what was previously thought to be the good state of macro. Rather, the problem lies both in how the discipline broaches broader material and in how this precludes moving forward to alternative analyses other than in a marginal way. It is a consequence of suspended TA^2 as the content and form taken by the latest phase of economics imperialism. It is only able to offer fragmented and inadequate analyses whilst offering the illusion of being capable of including more or less anything at will.

This syndrome is ideally illustrated by reference to where the mainstream will not go, to heterodox political economy.[19] More specifically, especially in the wake of the GFC, the notion of financialisation has over little more than a decade mushroomed across the social sciences, incorporating an extremely wide range of disciplines, methodologies, methods, theories, conceptualisations and subject matter, often from what is acknowledged to be undue neglect of finance in the past. Particularly striking is the failure of mainstream economics to have participated in this academic venture in any way whatsoever. Nor is it difficult to discern why, in contrast to other buzzword and fuzzword concepts such as globalisation and social capital, in which it has been able to participate from its own perspectives. The obstacles to embracing financialisation are that it is systemic, involving structures, relations, processes and agencies, and conflict and power. Both individually, and especially collectively, these are anathema even to the most open and suspended forms of economics imperialism – financialisation as behavioural economics, I don't think so!

But, equally important, as signalled earlier, even if sharply revealed by the GFC as the most explicit form taken by its inadequacies, the nature of mainstream economics that renders it incapable of addressing financialisation hangs heavily over the treatment of other issues that it either neglects or impoverishes, whether it be technical change, distribution, monopolisation, the role of health and education in economic performance, and so on. As argued, it is not at all that these are not covered but that they are only so on the basis of a piecemeal, fragmented and suspended TA^2 which, paradoxically, continues to provide considerable innovative momentum to the discipline and the marginalisation of alternatives whether the latter be within heterodox political economy or through genuine interdisciplinarity with the other social sciences.

This is truly a bleak picture and draws a sharp contrast with the previous major crises of the 1930s and the 1970s, when Keynesianism and the monetarist counter-revolution marked major changes in the discipline. By contrast, it seems today relatively undisturbed, changing rapidly if only to remain the same given the shifting forms taken by the latest phase of economics imperialism. Indeed, in earlier work, Fourcade (2010) has suggested that the scope for heterodox economics and its influence upon policymaking is highly contingent upon country context. Somewhat later, however, she has felt obliged to tease out what constitutes the supposed superiority of economists and how they sustain it, Fourcade et al (2015). This has, however, strengthened and broadened over time, with one of her exceptional cases, France, seemingly falling in line with the mainstream.[20] The one exception, that more than proves the rule, seems to be Greece where the Syriza

Government is flush with professors of heterodox economics. Possibly, this signals that the only secure way to bring about an alternative economics alongside, let alone in place of, the mainstream is through an equally radical change in policies, itself contingent on strengthening the political forces in favour of them.

---

[1] This paper draws upon and adds to a number of earlier contributions where the themes addressed are more fully developed and referenced, as well as participation in FESSUD acknowledged in later contributions. See Fine and Milonakis (2009 and 2011), Milonakis and Fine (2009), Fine (2015 and 2016a and b), Dimakou and Fine (2016). For the inertia of the mainstream as "Zombieconomics", see Fine (2009 and 2010d).

[2] The paper was eventually first published online as a Review in Advance on May 12, 2009, Blanchard (2009), and in print in September, 2009. The abstract was only amended to correct as, "None of this *is* deadly however", emphasis added. I have not checked for other changes in the substantive content of the text itself.

[3] For a sample of contributions on economics in the wake of the crisis, see Spaventa (2009), Krugman (2009), Buiter (2009), Besley (2011) and Blanchard et al (eds) (2012).

[4] Note this implies an entirely different individual subjectivity for mainstream economics (it is fixed) than for the postmodernist inventive consumer.

[5] The terms derive from Al-Jazaeri (2008).

[6] As explicitly reflected by Lucas (1987, pp. 107-8), Nobel Prize winner and leading proponent of the New Classical Economics, our emphasis, in the oft-quoted:

> The most interesting recent developments in macroeconomic theory seem to me describable as the reincorporation of aggregative problems such as inflation and the business cycle within the general framework of "microeconomic" theory. <u>If these developments succeed, the term 'macroeconomic' will simply disappear from use and the modifier "micro" will become superfluous.</u>

[7] To be distinguished from what might be termed Say's Law that the same applies to goods markets alone, which is refuted by Walras' Law insofar as an excess supply of all goods (a glut) can complement an excess demand for money, as is emphasised by Keynes in his rejection of a stylised classical economics as flawed by adherence to Say's Law with the notable exception of Malthus.

FESSUD

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

[8] It is noteworthy that the mainstream is essentially incapable of explaining why money emerges let alone why it would continue to be needed once equilibrium is attained.

[9] For this as unquestioned common ground, in context of debate between NCE and NCM, see Chari et al (2009).

[10] Significantly, the EMH is primarily about capacity, or not, to make abnormal returns within financial markets on the basis of available information; despite its name, it says nothing about the efficiency of the financial system in itself and for the economic system, and cannot do so without making assumptions about the existence of a unique, stable, Pareto-efficient equilibrium that is to be realised by the putatively efficient financial markets. See Guerrien and Gun (2011).

[11] Cited in Klamer (1984, p. 146).

[12] This is exemplified by the fate of Harry Markowitz, who received a Nobel Prize in economics in 1990 for his work on finance, but who completed his first work in the form of his (successful) University of Chicago doctoral dissertation in 1955. As reported by Harrison (1997, p. 176), citing Bernstein (1992), Friedman's comment on Markowitz's work was as follows:

> Harry, I don't see anything wrong with the math here, but I have a problem. This isn't a dissertation in economics, and we can't give you a Ph.D. in economics for a dissertation that's not economics. It's not math, it's not economics, it's not even business administration.

[13] See Solow (2006) for example as well as contributions in critique of Lucas' growth theory.

[14] For the new economics imperialism as Kuhnian paradigm, see Fine (2004) and, in the context of the newer development economics, Fine (2002).

[15] Note also an alternative route for the new economics imperialism by allowing for market imperfections in the presence of increasing returns to scale (and/or externalities). This is especially associated with Paul Krugman (and new trade theory and new economic geography) and new growth theory. For critical expositions, see Fine (2000, 2003 and 2006) and Fine (2010b), respectively

[16] For a critique of "nudge", now prominent in policy circles, in this vein, see Fine et al (2015). And for a parallel path to that taken by bounded rationality in seeking to engage a more realistic approach to consumption, now more readily acknowledged and

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

accommodated, consider the work of George Katona and his contribution to behavioural economics. See Hosseini (2011).

[17] This is most apparent in new growth theory and Barro-type regresssions, see Fine (2000, 2003 and 2006).

[18] Note, in particular, that deductive rigour (i.e. mathematical modelling) is always sacrificed at the altar of analytical content - if the maths does not give what we want, too bad, as with Cambridge Capital Theory, the conditions for the existence, uniqueness, stability and efficiency of general equilibrium, the theory of the second best, etc.

[19] This is not absolute as, of course, economics imperialism, especially in its latest phase, also colonises heterodoxy with, for example, segmented labour markets as a leading example of the application of asymmetric information economics, a topic that was previously shunned by the mainstream, Fine (1998).

[20] See http://assoeconomiepolitique.org/petition-pluralism-now/ See also Heise and Thieme (2015) for the earlier history of the decline of German heterodox political economy if, to some extent, falling into blaming the victim. See Lee (2012) for a more general defence of heterodoxy against critics of its being responsible for its own fate.

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

References

Al-Jazaeri, H. (2008) "Interrogating Technical Change through the History of Economic Thought in the Context of Latecomers' Industrial Development: The Case of the South Korean Microelectronics, Auto and Steel Industries", University of London, unpublished Phd Thesis.

Alt, J. and K. Shepsle (eds) (1990) Perspectives on Positive Political Economy, Cambridge: Cambridge University Press.

Arestis, P. and M. Sawyer (eds) (2004) The Rise of the Market, Camberley: Edward Elgar,

Bernstein, P. (1992) Capital Ideas: The Improbable Origins of Modern Wall Street, New York: Free Press.

Besley, T (2011) "Rethinking Economics: Introduction and Overview", Global Policy, vol 2, no 2, pp. 163-4.

Birch, K. and V. Mykhnenko (eds) (2010) The Rise and Fall of Neoliberalism: The Collapse of an Economic Order?, London: Zed Books.

Blanchard, O. (2008) "The State of Macro", NBER Working Paper, no 14259, http://www.nber.org/papers/w14259.pdf

Blanchard, O. (2009) "The State of Macro", Annual Review of Economics, vol 1, pp. 209-28 (volume publication date September).

Blanchard, O., D. Romer, M. Spence and J. Stiglitz (eds) (2012) In the Wake of the Crisis: Leading Economists Reassess Economic Policy, Cambridge: MIT Press.

Blanchard, O., G. Dell'Ariccia, and P. Mauro (2010) "Rethinking Macroeconomic Policy", IMF Staff Position Note, http://www.imf.org/external/pubs/ft/spn/2010/spn1003.pdf

Buiter, W. (2009) "The Unfortunate Uselessness of Most 'State of the Art' Academic Monetary Economics", 6 March, www.voxeu.org/index.php?q=node/3210

Chang, H-J. (ed) (2003) Rethinking Development Economics, London: Anthem Press.

Chari, V., P. Kehoe, E. McGrattan (2009) "New Keynesian Models: Not Yet Useful for Policy Analysis", American Economic Journal: Macroeconomics, vol 1, no 1, pp. 242-66.

Davis, J. (ed) (1997) New Economics and Its History, History of Political Economy, vol 29, Supplement, Durham, NC: Duke University Press.

Fine, B. (1998) Labour Market Theory: A Constructive Reassessment, London: Routledge.

Fine, B. (2000) "Endogenous Growth Theory: A Critical Assessment", Cambridge Journal of Economics, vol 24, no 2, pp. 245-65.

Fine, B. (2002) "Economics Imperialism and the New Development Economics as Kuhnian Paradigm Shift", World Development, vol 30, no 12, pp. 2057-70.

Fine, B. (2003) "New Growth Theory", in Chang (ed) (2003).

Fine, B. (2004) "Economics Imperialism as Kuhnian Revolution", in Arestis and Sawyer (eds) (2004).

Fine, B. (2006) "New Growth Theory: More Problem than Solution", in Fine and Jomo (eds) (2006).

Fine, B. (2009) "Development as Zombieconomics in the Age of Neo-Liberalism", Third World Quarterly, vol 30, no 5, pp. 885–904.

Fine, B. (2010a) "Beyond the Tragedy of the Commons: A Discussion of *Governing the Commons: The Evolution of Institutions for Collective Action*", Perspectives on Politics, vol 8, no 2, pp. 583-86, to appear in Elinor Ostrom and the Bloomington School of Political Economy: A Compendium of Key Statements, Collaborations, and Reactions, Volume 1: Polycentricity and the Bloomington School, Lexington Books, forthcoming, 2015.

Fine, B. (2010b) "Flattening Economic Geography: Locating the World Development Report for 2009", Journal of Economic Analysis, vol 1, no 1, pp. 15-33.

Fine, B. (2010c) Theories of Social Capital: Researchers Behaving Badly, London: Pluto Press.

Fine, B. (2010b) "Zombieconomics: The Living Death of the Dismal Science", in Birch and Mykhnenko (eds) (2010).

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

Fine, B. (2013) "Economics - Unfit for Purpose: The Director's Cut", SOAS Department of Economics Working Paper Series, no 176, http://www.soas.ac.uk/economics/research/workingpapers/file81476.pdf, revised and shortened to appear as, "Economics: Unfit for Purpose", Review of Social Economy, vol LXXI, no 3, 2013, pp. 373-89.

Fine, B. (2016a) "From One-Dimensional Man to One-Dimensions Economy and Economics", mimeo.

Fine, B. (2016b) "Neoclassical Economics: An Elephant Is not a Chimera But Is a Chimera Real?", in Morgan (ed) (2016).

Fine, B., D. Johnston, A. Santos and E. Van Waeyenberge (2015) "Nudging or Fudging: The World Development Report 2015", mimeo.

Fine, B. and D. Milonakis (2009) From Economics Imperialism to Freakonomics: The Shifting Boundaries Between Economics and Other Social Sciences, London: Routledge.

Fine, B. and D. Milonakis (2011) "'Useless but True': Economic Crisis and the Peculiarities of Economic Science", Historical Materialism, vol 19, no 2 pp. 3–31, the Isaac and Tamara Deutscher Memorial Lecture, London, 12 November, 2010.

Fine, B. and K. Jomo (eds) (2006) The New Development Economics: After the Washington Consensus, Delhi: Tulika, and London: Zed Press.

Fourcade, M. (2010) Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990, Ithaca: Princeton University Press.

Graaff, J. (1957) Theoretical Welfare Economics, Cambridge: Cambridge University Press.

Guerrien, B. and O. Gun (2011) Efficient Market Hypothesis: What Are We Talking about?", Real-World Economics Review, no 56, http://www.paecon.net/PAEReview/issue56/GuerrienGun56.pdf

Harrison, P. (1997) "A History of an Intellectual Arbitrage: The Evolution of Financial

Heise, A. and S. Thieme (2015) "What Happened to Heterodox Economics in Germany after the 1970s", Discussion Paper, no 49, Zentrum für Ökonomische und Soziologische Studien Universität

Hamburg, http://www.wiso.uni-hamburg.de/fileadmin/sozialoekonomie/zoess/DP_49_Heise_Thieme.pdf

Hosseini, H. (2011) "George Katona: A Founding Father of Old Behavioral Economics", Journal of Socio-Economics, vol 40, no 6, pp. 977-84.

Klamer, A. (1984) Conversations with Economists, Totowa, NJ: Rowman and Allanheld.

Krugman, P. (2009) "How Did Economists Get It So Wrong?", September 2, www.nytimes.com/2009/09/06/magazine/06Economic-t.html?_r=1&emc=eta1

Lawson, T. (2013) "What Is This 'School' Called Neoclassical Economics?", Cambridge Journal of Economics, vol 37, no 5, pp. 947-83, reproduced in Morgan (ed) (2016).

Lee, F. (2012) "Heterodox Economics and its Critics", Review of Political Economy, vol 24, no 2, pp. 337-51.

Lucas, R. (1987) Models of Business Cycles, Oxford: Basil Blackwell.

Milonakis, D. and B. Fine (2009) From Political Economy to Economics: Method, the Social and the Historical in the Evolution of Economic Theory, London: Routledge.

Morgan, J. (ed) (2016) What Is this 'School' Called Neoclassical Economics?: Debating the Issues, London: Routledge, forthcoming.

Simon, H. (1999) "The Potlatch between Economics and Political Science", in Alt et al (eds) (1999).

Solow, R. (2006) "Comments on Papers by Saint-Paul, Aghion, and Bhidé", Capitalism and Society, vol 1, no 1, Article 3, http://www.bepress.com/cas/vol1/iss1/art3/

Spaventa, L. (2009) "Economists and Economics: What Does the Crisis Tell Us?", http://www.cepr.org/pubs/PolicyInsights/PolicyInsight38.pdf

Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number: 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

THE PARTNERS IN THE CONSORTIUM ARE:

Participant	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

Published in Leeds, U.K. on behalf of the FESSUD project.