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Introduction

"The assumptions made in microeconomic theory are so unreal as to render the theory useless for analysing real economic problems."
- discuss .

Economics is often described as the most 'mature' of the social sciences, or the 'hardest' amongst the 'soft' sciences. To discuss the justness of this claim, I will look in this essay at the most elementary concepts of economic theory. Whilst the complexity of mathematical formulae is wholly without content it is the most elementary concepts which contain the systems of economic relations in its entirety, i.e. the relations of value, exchange and capital.

The object of this essay is to clarify the nature of economic knowledge and its related capacity to predict real economic problems.

Value in Classical Theory

In drawing out the connection between labour and value Adam Smith succeeded in "Wealth of Nations" to set the starting point of economic theory. But the ideas, as expressed in the word 'value', have since remained rather metaphysical.

"The word 'value', it is to be observed, has two different meanings, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other 'value in exchange'." (*1)

But according to Marx,

"... it is one of the chief failings of classical economy that it has never succeeded, by means of its analysis of commodities, and, in particular, of their value, in discovering that form under which value becomes exchange value." (*2)

Classical theory equates value and exchange-value denying thereby any analytical ground for exchange-value and its monetary forms. One reason for the failure of classical economics to investigate the commodity form lies in the fetishism that surrounds commodities themselves. This means that a definite social relation between men assumes, in their eyes, the fantastic form of relations between things, i.e. their own social action takes the form of actions of objects, which rule the producers instead of being ruled by them. (*3)

This critique by Marx is itself typically classical inasmuch as Smith himself had often criticised the popular conception of economic life for not drawing a conceptual distinction between appearance and reality. And

*1 A. Smith, "Wealth of Nations", Vol. 1, p. 24.

*2 K. Marx, "Capital", Vol. 1, p. 80.

*3 K. Marx, "Capital", Vol. 1, p. 72, p. 75.

the project of classical theory to demonstrate that the social relations of capitalist production exist only as forms of the real relations of man to nature is equally shared by its Marxist critique.

Utility in Neo-Classical Theory

Whilst classical economics grounded value in nature, neo-classical theory eliminates this essential distinction between value and exchange-value and distances itself from the conception of value as a relation which requires a social grounding intrinsic to the commodity. The whole emphasis in the development of neo-classical theory was not upon the structure of the system but upon its internal working. The theory of relative prices became the almost exclusive subject of discussion.

Yet utility is a concept of impregnable circularity:

"... utility is the quality in commodities that makes individuals want to buy them, and the fact that individuals want to buy commodities shows that they have utility." (*1)

In contrast to 'desire' or 'satisfaction' which can neither be measured directly, utility is purportedly a quantity which consequently can be spoken of in total, average, and marginal terms. But despite this mathematicization and all further refinements the concept remains essentially metaphysical. Neither does the concept of revealed preferences provide any scientific ground for the theory. The standard examples of paternalism (like drug abuse etc.) show that the preference in the consumption of commodities is primarily socially and not naturally determined. Similarly the claim that market behaviour reveals preferences can easily be questioned as it leaves aside the crucial question of what influences preferences (e.g. information, habit, advertising etc.).

In the end of the day one might even claim that the dilemma of neo-classical economic theory is a preoccupation with raising the respectability of profits to the same level as wages. Everyone is simply maximising something, the household utility and the firm profits. (*2)

The Myth of Objectivity

"The single most important discovery of social science in these last decades is that social science does not yield the kind of knowledge of society - and the kind of power over society - that the natural science possesses vis-a-vis the natural world." (*6)

An important advance in the development of the methodology of science was arrived at through the works of T. S. Kuhn. Kuhn suggests that scientific knowledge does not develop in a linear fashion, but in uneven movements. According to this theory, most of the time scientists are not concerned with the testing of the underlying assumptions of their theorems, but are involved in the applications of these paradigms in an even greater context. This process he called 'normal science'. Though Kuhn did not relate his theory to economics in particular, the Marshallian cross diagram of inter-

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- *1 J. Robinson, "Economic Philosophy", p. 48.
 - *2. *ibid.*, pp. 57 - 58.
 - *3. Irving Kristol, "The Observer", 4. October 1964.

secting supply and demand curves provides a perfect example. Only at particular times, when existing theories are evidently unable to explain prevalent circumstances, scientists are willing to look for theoretical explanations beyond the prevailing paradigms and new hypotheses are generated. It is only this period of 'extra-normal science' which is comparable with the orthodox view of what happens all the time. The contrast of this view of economic science with the positivist view is striking and lets many introductory chapters of economic textbooks on the scientific character of positive economics look rather thin. (*1)

Whilst Kuhn provides some explanations for the history of economic thought and reinforces that science is the activity of making testable statements, the most important point that one can take from Kuhn is possibly that

"... economic scientists do not spend their time testing directly or indirectly the assumptions on which the theory is based." (*2)

The empirical work in which they engage is by and large related to matters of detail. And in the case of findings that conflict the underlying thesis these tend to be explained as imperfections to the unquestioned theory in general.

Accepting Kuhn's theory of paradigms and the historical relativity of fundamental theorems one question arises: Are there any objective criteria which can be used for ultimately showing which of two competing theories is the superior one?

Some important considerations on these questions are expressed in the works of Karl Popper, who generally held a sceptical view towards the social sciences.

"There is very little in the social sciences that resembles the objective and ideal quest for truth which we meet in physics." (*9)

Yet at the same moment he was over-optimistic in his views upon economics, believing that mathematical economics had qualitatively changed its character. But the mathematical 'revolution' in economics has been one almost entirely of form and, following Kuhn, has been only marginally involved in the empirical testing of its fundamental assumptions.

Though Popper develops his view in contrast to the Vienna School (positivists), one can argue that Popper himself proposes an essentially positivistic view. Firstly, in that he takes it for granted that the attempt to develop economics along naturalistic lines is desirable. Secondly, in that he presupposes the existence of objective truth conditions within the social sciences and therefore reduces the problem of the social sciences to the question of their testability. For finding the 'right' theory he then suggests the competition of ideas amongst various scientists in the adequate journals, conferences, etc.

The flaw in this comparison between economics and the natural sciences and

*1 Lipsey's "Positive Economics" provides a particular dogmatic example of this.

*2 F. Green, P. Nore (eds.), "Economics - An Anti-Text", p. 10.

*3 K. Popper, "The Poverty of Historicism", p. 16.

the methods, tactics and criteria appropriate to them is that it neglects the vital differences in the nature of the basic materials with which they are engaged. The difference lies in the fact, firstly, that the subject of the natural sciences precedes man, whilst the subject of the social sciences, including economics, is manmade and therefore in its particular form dependent upon the particular historical social relations. Secondly, as in the social sciences, the scientist is not untouched by the subject matter, every statement will inevitably be influenced by his own interests and ideology.

Popper's ideas have been substantially criticised by members of the Frankfurt School, in particular by Theodor Adorno and Jurgen Habermas. In the dispute on positivism (*1) Adorno holds that it is not enough to question whether the method of the natural science are appropriate to the social science, but that it is necessary to question whether science itself is an adequate form by which social relations can be understood. Science has no theory of knowledge by which it can position its own existence. Science is an example of knowledge as such allowing scientism to be the only possible form, thereby creating an inbuilt circularity by which knowledge becomes validated only internally.

Tom Bottomore identifies three major criticisms of positivism as a theory of knowledge or philosophy of science, which can be especially related to economics:

- (a) that it treats active human beings as mere facts and objects within a scheme of mechanical determinism;
- (b) that it conceives the world only as immediately given in experience, and makes no distinction between essence and appearance. But appearances are nothing more than arbitrarily chosen facts of social reality;
- (c) in being concerned only with appearances, positivism is essentially conservative and can be best understood as constituting a new form of domination (technocratic domination or domination by instrumental rationality). (*2)

In contrast to positivism, dialectic and Critical Theory try to develop a system of practices in which science is not the only possible system of knowledge, and which tries to relate knowledge back to its individual purposes. In contrast to scientism and positivism it integrated knowledge with interests and is aimed at an emancipatory role in the development of human society.

Some Questions that arise:

Based on the previous theoretical considerations I will now raise some questions about fundamental assumptions in microeconomic theory.

Is positive economics as valuefree as it claims to be?

First of all I would agree with Popper who already pointed out that the

*1 T. W. Adorno, "The Positivist Dispute in German Sociology", 1969; (English 1976).

*2 T. Bottomore, "The Frankfurt School", p. 16.

call for valuefreedom is paradoxical inasmuch as scientific objectivity and valuefreedom are values themselves. Secondly, I would disagree with Popper who sees the objectivity of science in the objectivity of the method of trial and error. As the subject matter (i.e. economics) is socially determined and therefore does not precede its investigation, a method that is only concerned with appearances is inevitably conservative, as it only tries to interpret the status quo but does not investigate the status quo in terms of its adequacy in shaping human society coherent to its potentials. Social sciences cannot and should not be valuefree and the common distinction between positive and normative economics is a false dichotomy.

Is it adequate to take the individual as basic unit of analysis?

Since the 1960s orthodox theory had come under attack from Cambridge, England, which tried to contradict neo-classical theory in its own terms. The point that P. Sraffa and others weremaking was such that the rate of profit is not solely determined by technology but that the distribution of income has equally to be taken into account. (This they rather narrowly defined as class struggle without which they held neo-classical theory being incomplete). But this was partial-equilibrium theory, which they had criticised. General-equilibrium theory is internally consistent. Where Cambridge, England, claimed that a theory of class struggle was needed, Cambridge, Massachusetts, explained the determination fo factor prices (within a general-equilibrium framework) by individual preferences for leisure rather than for labour and consumption now rather than later. Thus, precisely by returning to the consistency of its individualistic basis, orthodox theory was defended; at least against a critique of internal inconsistency. But it left unanswered the question of where these preferences and endowments came from. People do what they most prefer to do. What people most prefer to do is what they do. There is no way out of this circularity without a theory which is able to determine people's tastes and explain how these change over time.

There are two more fundamental criticisms on orthodox theory. Firstly, it cannot explain the process of change in society. The capitalist mode of production is not unique. It has neither been always followed, nor is it one that is followed in all part of the world at the present time. But orthodox theory is incapable of explaining why there are different social relations of production and what determines the change from one system into another. Secondly, like any other social theory that grounds itself on the individual as basic unit, orthodox economics is neither able to explain social institutions, nor is it able to account for power relations within society. The former becomes particularly clear at a time when the state plays an ever greater role in economic life. (*1) The latter is related to the appearance that the worker disposes of his labour-power according to his own free will. But this is a mere appearance, an illusion, whose reality is that the worker is forced to sell his labour-power as he is disowned of the means of production.

Conclusion

Are the assumptions made in microeconomic theory so unreal as to render the theory useless for analysing real economic problems?

*1 This subject rather involves a critique on the assumptions of macro-economic theory and is dealt with in my essay in social theory on the role of the stage as 'collective capitalist'.

From the preceeding parts it should have become clear that there are limits as to what extent orthodox theory is able to explain the very existence of the form of contemporary social relations and the prevailing features of economic life. The relation between methodological injunction and object of study is not one of externality, as is the case with an abstract rule applicable to any content whatsoever. It is rather a relation of adequacy between object and method, the character of the latter being detmined by the structur eof the former. In other words, orthodox economic theory, presupposing the capitalist mode of production (i.e. the separation of the worker from the means of production and the existence of a generalised commodity production) cannot be used to make any serious statement about the adequacy of the capitalist mode of production in regard to the potentials of human society.

On the other hand the last decade shows a rising demand for economists indicating at least the predictive expectations towards this profession. But, coherent to Kuhn's argument, this market demand exists by and large for economists and econometricians who are predominantly involved in the fabrication of quantitative predictions. And it is this increasing quantification which has methodologically led to an attempt to follow much more closely and explicitly the natural sciences.

In my opinion orthodox economic theory is able to quantify and predict economic incidents, as long as the major prevailing parameters remain unchanged. But by its very nature it is unable to predict major changes in the organisation of economic life as these are exogenous to the scope of the applied method. And it is not surprising that every major change during the passt 150 years has so far brought about a new approach in the history of economic thought.

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