

Chapter One

THE RECONSTRUCTION OF AN ALTERNATIVE ECONOMIC THOUGHT: SOME PREMISES

Salvatore Biasco

1. Introduction

Alessandro Roncaglia has given us fundamental reflections on the methodological and conceptual canons that should be the cornerstones of a realistic (and at the same time, stylized) vision of how the capitalist economy behaves.¹ Roncaglia has taught us that reconstructing the political economy on alternative methodological assumptions—in a direction opposite to the dominant neoclassical vision—involves an interpretation of history, and also of the present as history. Of course, not all of its branches or issues can be treated as a part of a comprehensive “model,” as Roncaglia frequently states. Optics that do well in one field may not be as good in another; each branch also has its technical specificity. The reconstruction can take place even in separate pieces, and can involve retrieving and updating what, of precious developed writings, one finds scattered in the critical literature on economic and social sciences. But what is important is that the methodological and epistemological apparatus maintains a uniform inspiration as well as should remain the points of reference of the analytical approach.

In what follows I devote my attention to some basic points of setting an alternative vision, knowing that on so much Roncaglia and I agree in full, but that there are minor distinctions between us.

2. Complexity

In a nutshell, at the base of a nonmainstream way of looking at the economy, from a descriptive and normative perspective, cannot but be social complexity, uncertainty and innovative dynamics. Through these lenses, the aggregate behavior of the economy is studied as determined by constantly evolving endogenous events, which are fed by a number of driving forces: unstable and potentially explosive relationships; nondeterministic developments; a financial system closely interconnected to the real economy but also able to acquire an autonomous dimension; and a social dynamic that changes in parallel to the whole process and that at the same time affects it.

In complex systems, the whole is more than the sum of its parts. Although the representation of a society and an economy's aggregate behavior cannot ignore their components (not only individual actors but also collective and institutional ones), the interaction of these components results in an outcome that is not predictable from the parts themselves and not necessarily inferable from them. This is the opposite of the mainstream idea that the system can be observed from the standpoint of the representative agent.²

Despite this complexity, it is always possible to establish macroeconomic relationships of cause and effect in a rigorous academic framework or to draw a theoretical framework for state action. It would be a mistake to leave to mainstream economics the power of generalized abstraction. As economists deal with the inborn dynamism of the production and social system, the most appropriate abstraction for them is extracting—in the specific process under analysis—the causal chains relating to the dominant forces at work and conjecturing about the strength of forces and counterforces (and contingent circumstances) that determines which would prevail. This then entails the necessity of putting in a logical sequence (short) chains of cause-effect relationships that can capture the points of tension (or friction or imbalance) and reduce the analysis to a core of simplified propositions, which are compact and logically solid. Following general interdependencies (and seeking their equilibrium) only obfuscates the hierarchy of processes. Pretending to move relations mechanically (even to the ultimate consequences) leads to losing sight of the fact that the material that economists deal with is not constant, homogeneous, or stable, and cannot be reduced to parametric determinations.

The cause-effect sequences placed at the center of a representation of any single macroeconomic process can be nothing but abstractions drawn from the wide empirical knowledge of a reality that demands to be known and studied in detail (and that is the background of all single conjectures), without necessarily being a bare transposition of that reality. That empirical world, however, burst back onto the scene since the plausibility of a theory (and its lifeblood) rests on how many microeconomic phenomena that theory crosses, or manages to encompass within it or gives an account of, once confronted with a complex and differentiated society. This is the only test of a theory.³ “The master-economist,” writes Keynes, “must possess a rare combination of gift. He must contemplate the particular in terms of the general and touch abstract and concrete in the same flight of thought.”⁴ Therefore, a sensible alternative economic theory can only be based on the study of actual social interactions, markets, specific situations, and institutions and also rely on studies in the field, case studies, and even on significant anecdotal evidence. It cannot but be, in essence, inductive and empirically oriented (much like the dominant thought is axiomatic and deductive), even in the awareness that a work of synthesis and abstraction must follow from it. Such a work must be aimed at reconstructing the order of phenomena or their internal engine, taking into account that many microrelationships change in perspective at the aggregate level. It is unlikely that a deterministic configuration is the right frame for this synthesis.⁵ Among the underlying forces considered in any specific theorizing, those relating to social structure and collective action, to institutions and distribution of income, to wealth and power are of key importance in the economic dynamics. Social identities forge economic choices. This means that the economy should be a tributary to sociology, political science, history, and

law as well as the behavioral sciences (which do not support the hypothesis of full rationality and exclusive utilitarianism).

3. Instability

Let us now put aside issues of methodology.⁶ Concerning matters of merit, however, a context dominated by instability requires a paradigm for instability, that is, the way in which it is generated endogenously. At its center there is the logic of capital accumulation and of finance. Within a methodological approach aimed at studying (as it should be done) processes under conditions of permanent disequilibrium and the irreversibility of real decisions, it would be easier to grasp that such processes, once begun, do not necessarily imply a point of arrival. This means that there is no attraction toward an indefinite equilibrium. Indeed, an initial imbalance more likely leads to further imbalances, even if of a different nature or size, and, in doing so, it induces institutional and behavioral changes along the path that the economy is following.⁷ Instability is an endogenous feature of the economic system stemming from many factors: the internal chains of phenomena, the difficulties faced by operators in assessing the situation, uncertainty about the future, the variability of responses, and the internal logic of markets. When left to themselves, internal causal relationships can potentially lead to spiraling developments, and this is especially evident if one takes into account the strict links between macroeconomic facts and the financial structure, and vice versa (finance and the real economy do not live in two separate worlds). Accordingly, expectations cannot be firmly anchored to some point of convergence, and nothing can be inferred about the characteristics of the “long period.”

4. State

Sometimes spirals either remain in the background as a potential outcome or end by themselves (with lasting consequences), but more often it is public action that manages them, either leaving them in a latent state (which erroneously may let the economy appear stable) or intervening to block them once they are already in action. If an anchor of the economy exists, it can only be found in a cooperative framework of rules of the game, organization of markets, and state monitoring.

In this context, the role of public decisions shares in the overall complexity. Public actions are not, differently from what is assumed by orthodox economics, either juxtaposed to a stable economy or destined by their own nature to create exogenous shocks. They are, instead, always reactions to the endogenous instability of the system. Such reactions are not always deterministically undertaken in obvious directions and size because they encounter inner conflicts: between public objectives, in divergent effectiveness in different areas of a heterogeneous society, because of side drawbacks closely connected to problems they tackle and because, after all, governments have to deal with the consensus and cohesion required in democratic societies as well as with the complication of the decision-making processes. Moreover, only after certain thresholds have been reached is it sometimes perceived that a process has progressed and can get out of hand.

5. Trust

A theoretical framework of public action must start from the general context dominated by uncertainty and from the state of operators' confidence. Economic decisions are not taken on strong anchors by operators, and those concerning demand are different from those concerning supply. Rationality in decisions is limited, and the knowledge of reality that individuals have is imperfect. In few areas can expectations about the future be traced to probabilistic schemes (if not subjective ones) or calculable risk; the majority are dominated by uncertainty (see Roncaglia, 2012). Depending on the case, exploratory, irrational, and imitative behaviors as well as routines and (partly) social and behavioral conventions have a role in the analysis. It is not just the type of behavior that is indefinable. The perception of a situation as a basis for decisions is weak (only the reductive idea about information and rationality that mainstream economics maintains can avoid these problems).⁸

If the above is true, the system is somewhat dominated by collective confidence, which influences the attitude and behavior of operators. Such confidence may depend on many exogenous factors. Today, for example, new elements of the economy have a negative effect on confidence [as, for example, globalization itself, the complexity of new technologies, the shortness of required reaction time, the weight of finance (involving more risk), the speed of technical progress, the rapidity of changes in the labor market, the fall in the quality of international governance, and more]. However, it is public action and the institutional structure that—by socializing many variables and providing the necessary anchoring—are decisive. They ultimately allow operators to deal with these aspects with more or less optimism and to make operators' confidence higher or lower and their way of looking at the future more open and less uncertain or, on the contrary, more dense with insecurity and more labile. Since the degree of confidence is the frame in which the whole economic process evolves, it follows that the task of the normative and operative aspects of public action is to turn economic policy in the direction of strengthening trust itself, dominating the complexity and reducing uncertainty. This is the key factor that governs growth and stabilization.

6. Remarks

Two considerations at the end. The alternative analytical framework can only be aimed at a *cultural* fallout. This basically entails the collective awareness that a society led by private profit produces social and economic uncertainty, a deep social economic divide, conflicting interests that find solution in the law of the stronger, of market failures, and of economic instability (and transformation)—all features that can be brought under control and governed in the collective interest only with the primacy of politics over economics (almost an opposite conclusion to that of orthodox economics). This leads me to a second consideration that may appear unusual in an academic setting. Although it is true that reconstructing an alternative way of thinking is a disciplinary task; nevertheless, it aborts or changes meaning if it is a purely intellectual effort and does not occur with

the participation of culturally committed political forces that feel this reconstruction is an integral part of their process of definition of their cultural identity.

Notes

- 1 The whole body of work of Roncaglia is food for thought concerning methodological and analytical issues including his seminal work, *The Wealth of Ideas* (Roncaglia 2005a). It is also worth reading *Why the Economists Got It Wrong* (2010), “What Do We Mean by Anglo-American Capitalism?” (2011), and *Il mito della mano invisibile* (2005b).
- 2 Many phenomena that have a causal direction from the standpoint of an individual operator present reversed causality at the aggregate level. A few well-known simple textbook examples can be cited: deposits determine loans for individual operators, while the opposite is true at the aggregate level; the same goes for the saving-investment relationship. What appears to be true in isolation may not be true in the aggregate, as, for example, also occurs in the relationship between decreases in wage costs and increases in profits for single firms, but not possibly for the economy as a whole. And so on.
- 3 This is a perspective that is opposite to the mainstream one. The latter states that one can draw inference with regard to the economy as a whole by studying a “representative” single agent (depicted as similar to the others, as abstract and utility maximizing). It relies on a mechanistic (econometric) analysis of aggregate phenomena (built on a database extended over a considerable length of time) for testing deductively derived propositions, as if the economy were stable and maintained identical parametric relationships over time. In that perspective, techniques and good software, not a thorough knowledge of reality, are needed.
- 4 “He must be mathematician, historian, statesman, philosopher in some degree” (Keynes, 1933, 173).
- 5 This implies that no variable is *parametrically* bounded in its movements and values to other variables, but is often determined by beliefs and conventions that dominate the behavior of operators. We can call this approach a “conventionalistic” one (meaning, for instance, that a given level of the exchange rate or inflation is compatible with a wide range of shapes and levels of the yield curve or vice versa). In this alternative analytical context, mathematical relations, formalized in a model, do not give a demonstration of anything, but can be sometimes a useful exercise that translate into the form of a model the ideas developed independently from the use of formal analysis; it can help (possibly) to extract the essence of these ideas and explore the ultimate abstract consequences, but the place of that model is in the Appendix of an essay. However, the exercise can be useful as long as one does not lose sight of the fact that it is a reductive operation, which can only be based on mechanistic relations and standardized reactions, and reduce to risk what is uncertainty (that is, the immeasurable as it were measurable).
- 6 These issues of method can be deepened in the essays contained in Becattini (1991a), especially in the essays of Becattini, Kregel, and Biasco. See also Roncaglia (2009).
- 7 I quote here as simple examples some basic spirals, such as wages-prices, inflation-exchange rate, or speculative bubbles, but many others can be brought out concerning more structural variables. Induced changes occurring during these spirals persist when they end. An inflationary process induces financial innovations (and redistribution of income); in a speculative bubble on the equity market firms strengthen their capital structure at low cost; a spiral of the exchange rate displaces sectorial production irreversibly, and so on. As the scale of a phenomenon increases, it reaches thresholds at which the operators’ perception of it changes and therefore their behavior toward the phenomenon itself does, too. The conditions under which a spiral ends, can also bring irreversible changes.

- 8 If any decision implies a sequence of phases—that the perception of a situation leads to the evaluation of possible alternatives of actions, then to the decision itself, and finally to the application of a decision—in the *mainstream* approach the crucial phase is the third (the decision, i.e., the choice), while the others do not present problems. In other words, for *mainstream* economics what is crucial is which decision (rational and utility maximizing) is taken, once that the alternatives are evaluated on the basis of a complete information, which is perfectly deductible from reality. In a vision that is *not mainstream*, the crucial phase is the first, and this makes the others poorly definable.

References

- Becattini, G., ed. 1991a. *Economisti allo specchio*. Firenze: Vallecchi.
- . 1991b. “Alla ricerca dell’antitesi.” In *Economisti allo specchio*, edited by G. Becattini, 25–38. Firenze: Vallecchi.
- Biasco, S. 1991. “Valori convenzionali delle variabili e metodo scientifico in economia.” In *Economisti allo specchio*, edited by G. Becattini, 115–30. Firenze: Vallecchi.
- Keynes, J. M. 1933. “Alfred Marshall.” In *Essays in Biography*, vol. 10 of *The Collected Writings of John Maynard Keynes*, edited by D. Moggridge, 161–231. London, Macmillan, 1972.
- Kregel, J. A. 1991. “La fine dell’economia politica keynesiana e la teoria della distribuzione.” In *Economisti allo specchio*, edited by G. Becattini, 40–56. Firenze: Vallecchi.
- Roncaglia, A. 2005a. *The Wealth of Ideas: A History of Economic Thought*. Cambridge: Cambridge University Press.
- . 2005b. *Il mito della mano invisibile*. Roma–Bari: Laterza.
- . 2009. “Sulla storia delle misure del prodotto e sul metodo dell’economia,” *Rivista di storia economica* 25, no 3: 383–88.
- . 2010. *Why the Economists Got It Wrong: The Crisis and Its Cultural Roots*. London and New York: Anthem Press.
- . 2011. “What Do We Mean by Anglo-American Capitalism?” *Adam Smith Review* 6: 283–89.
- . 2012. “Keynesian Uncertainty and the Shaky Foundations of Statistical Risk Assessment Models,” *PSL Quarterly Review* 65, no. 263: 437–54.