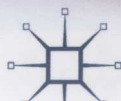
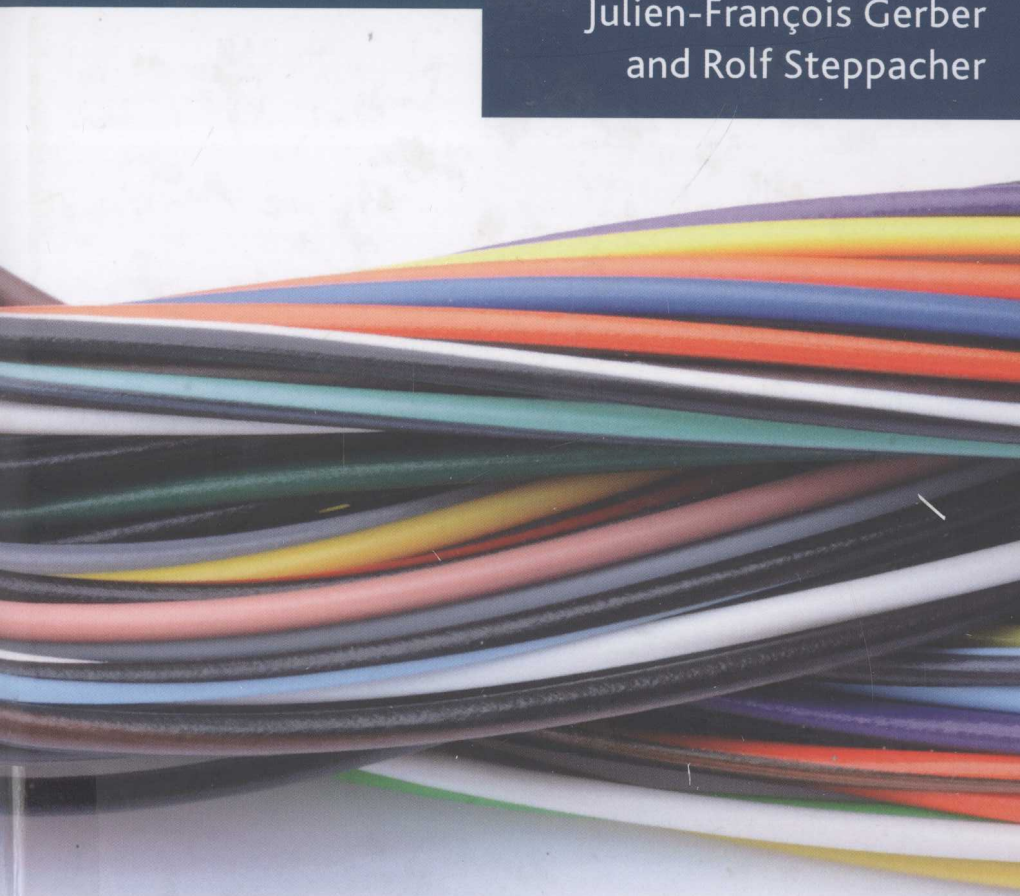


Towards an Integrated Paradigm in Heterodox Economics

Alternative Approaches to the Current Eco-Social Crises

Edited by
Julien-François Gerber
and Rolf Steppacher



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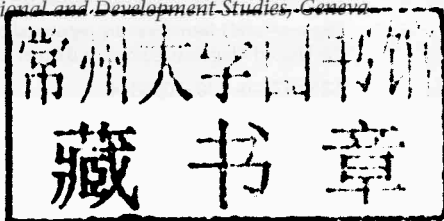
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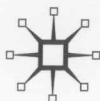
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Towards an Integrated Paradigm in Heterodox Economics

To K. William Kapp

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Introduction

Julien-François Gerber and Rolf Steppacher

Science is a co-evolution of 'orthodox' (mainstream) and 'heterodox' (critical) approaches. Facing a multitude of notions, concepts, and theories, how can we distinguish between these two broad approaches? As explained by Thomas Kuhn (1962), a transition from one orthodoxy to another cannot be reduced to an accumulation of new knowledge, but it takes place through a radical change in the prevailing perspective, a transformation of preconceptions (Veblen, [1899] 2004), a new pre-analytical vision (Schumpeter, 1954), or a new paradigm (Kuhn, 1962). These notions are inevitably quite vague, but it is nevertheless possible here to better delineate them using the example of economics. Broadly speaking, in their systematization of political economy, great economists integrated four factors that can be regarded as crucial in the constitution of any new paradigm in economics.

First, we find in Adam Smith's ([1776] 1937) work that his preconceptions were in harmony with the prevailing natural sciences: his theory was influenced by the mechanical model of Newtonian physics, the dominant scientific approach of his day. Accordingly, Smith conceived the market economy as a closed system regulated by a self-organizing 'invisible hand' tending towards a state of equilibrium. Second, he was equally in agreement with the philosophical conceptions that underlie the systems of knowledge and of values of his time (he was himself a philosopher). His paradigm was based on utilitarianism, and he placed at the centre of his economic analysis the pursuit of personal interest – seen as a motivation grounded in human nature – yet he was aware of the complementary moral sentiments (Smith, [1759] 1981). Third, Smith anticipated new socioeconomic realities that were to appear as a result of the emerging division of labor and the corresponding potential of economic development (which took place prior to the 'thermo-

industrial revolution').¹ Like the physiocrats who greatly influenced him, he opposed mercantilist controls which, according to him, represented a restricting brake on the blossoming of manufacturers and, therefore, on future evolutions. And, finally, from a political perspective as expressed in the conflicts of interests of his time, Smith stressed the entrepreneurs – neither landowners nor workers – as key agents of development indirectly promoting social harmony.

Adam Smith's new paradigm grasped new problems and tendencies in a systematic and unified way. Anyone thinking in terms of equilibria may, as he did, identify social forces pointing towards a general harmonization of interests despite the pursuit of individual profit. Once such a new perspective has been established, a 'normal' science emerges and 'normal' scientists appear, who test its new potential, collect new data, nuance theories, and so forth. However, working within a given paradigm also implies that one cannot approach reality in an innocent way. On the contrary, real phenomena become 'fixed' into concepts and theories in agreement with the paradigm. All factors that cannot be apprehended by the latter are put aside – a process which may encourage the emergence of heterodox currents and, later on, of a new paradigm. In effect, all critical currents of economic thought initially developed as a reaction against the orthodoxy, taking their roots in aspects of reality that could not be satisfactorily captured by the mainstream paradigm. Early critics of classical economics, like Jean de Sismondi (1819), John Rae (1834) or Richard Jones (1831), quickly addressed – even before Karl Marx – the social situation of the poor and the dependency of colonies, and they criticized an abstract methodology concealing these realities. But creative heterodox currents are more than simply a series of rectifications of partial problems that hitherto were neglected.

Let us take Thorstein Veblen as a brief example. Veblen (1904; 1923) developed a new perspective – critical institutional economics² – that called into question the preconceptions of all the currents of economic thinking known at the turn of the twentieth century. He regarded the economy as an open system in co-evolution with the larger social and natural systems, rejecting any teleological perspective. Veblen replaced the model of *competitive equilibrium* with the model of *circular cumulative causation* and dealt with economic problems using his knowledge of anthropology and social psychology, two fields of study that emphasize the cultural conditioning associated with specific institutions. To take just one example, he examined with great clarity the considerable psychological effects generated by mass advertising (Veblen, 1899), while neoclassical economists, at the same time, promoted the idea of the