NORTH-HOLLAND

Review of Radical Political Economics 33 (2001) 335–342

Review of RADICAL POLITICAL ECONOMICS

www.elsevier.com/locate/revra

You can't beat something with nothing: getting an alternative into the curriculum

Neva R. Goodwin*

Global Development and Environment Institute, Tufts University, Medford, MA 02155, USA

Abstract

This paper describes an alternative paradigm, "contextual economics," which is being developed, initially, in the form of an introductory microeconomics textbook. This paradigm gives special attention to the goals of economic actors and of the discipline of economics; and to the physical and the social/psychological contexts within which economies function. © 2001 URPE. All rights reserved.

JEL codes: A22; D00

Keywords: Alternative paradigm; Contextual economics; Economic principles; Goals

1. Introduction

The motivation for this paper, and for the project which it describes, is the following set of observations and strategic responses.

There have been many forceful criticisms of the neoclassical paradigm. Some of these have been simply ignored. Others have been co-opted and subverted—e.g., as Keynes's radical recognition of market norms of irrationality and disequilibrium was absorbed into Samuelson's "neoclassical synthesis"; as Leibenstein's X-inefficiency became a footnote in labor economics; or as the theory of the second best "notes but ignores"[1] Kelvin Lancaster and Robert Lipsey's recognition of the uncommonness of perfectly competitive conditions.

* Tel.: +1-617-627-3530; fax: +1-617-627-2409.

E-mail address: ngoodwin@tufts.edu (N.R. Goodwin).

[1] "Note but ignore" is a strategy that Steve Cohn has named and documented; see, for example, working paper #6 at: *http://ase.tufts.edu/gdae*.

0486-6134/01/$ – see front matter © 2001 URPE. All rights reserved.
PII: S0486-6134(01)00096-1

This strategy has been successful because economics is taught, and learned, from the "principles" up. It is presented as fully integrated and fully axiomatized; you have to accept the whole thing, or else find a complete alternative. Skeptical teachers of economics are faced with a dilemma: if they try to include the criticisms in their presentation of the mainstream paradigm, they are left with an unteachable wreck. When you have abandoned such neoclassical fundamentals as rational utility maximization, consumer sovereignty, perfect competition, general equilibrium, the transferability of ideas from static to dynamic models, the value-neutrality of economic efficiency, and an invisible hand ensuring that self-interested individual behavior will aggregate to maximum social well-being, what can you do with what remains?

The counter-strategy, therefore, must be the development of an alternative that is sufficiently complete that it can be offered as "what economics is about." This means starting not with "high theory," which adds a few elaborations to a carefully constructed edifice, but at the ground floor. It means, in fact, starting with a textbook out of which instructors can teach the basic principles of economics.

2. Overview of an alternative economics paradigm

Since 1994 I have been working with a number of colleagues to develop an introductory economics textbook that would, in the first instance, be appropriate for Russia and other transitional economies. We began with an agreement with Kelvin Lancaster that would allow us to start by revising the old, but excellent textbook, *Economics: Principles and Practice* that Lancaster wrote with Ronald Dulany. Frank Ackerman, Tom Weisskopf, and I, with input from many others, have done a pretty thorough revision; the first book we have produced—called *Microeconomics in Context*—is probably about one-quarter Lancaster and Dulany, three-quarters new. The first edition has now been translated into Russian, and, under the leadership of Tom Gottschang, Chair of the Economics Department at Holy Cross, is being translated into Vietnamese.

Microeconomics in Context defines economics as the study of a particular part of human behavior, namely how people try to achieve their goals, especially through production, resource allocation and socially sanctioned forms of exchange, operating within a physical context that includes ecology and technology, and a social/psychological context that includes human motivations, politics, culture, institutions, ethics, and history.

While "production, resource allocation, and socially sanctioned forms of exchange" are found in standard descriptions of what economics is about, our definition diverges sharply in emphasizing goals, as well as the physical and the psychological/social contexts. Those emphases turn out to provide a reasonable start to a new paradigm: one that we are calling *contextual economics*.

The project of constructing this alternative has been like putting together a patchwork quilt. It began at a 3-day meeting in 1994 which included Peter Dorman, Susan Feiner, Jonathan Harris, Kelvin Lancaster, and Wassily Leontief. (Frank Ackerman joined us a couple of years later, at a time when Tom Weisskopf was obliged to turn most of his attention elsewhere.) Tom and I initially worked with this group to mark the outlines of a quilt in which maybe as much as 40 percent could be composed of patches taken from the neoclassical system. Much else that was needed could be found in various alternative approaches. The list of nonstandard patches would be enormously long; I will just mention a few of the most obvious.

From ecological economics we adopted Herman Daly's seminal observation that the economic system exists within, and is dependent upon, the ecological system. This is the starting point for many important ideas: for example, the natural resource constraints attendant on economic activity, and the necessity to pay close attention to long-run effects of current activity; the notions that there may be a naturally enforced limit to the size of the global human economy; and the limits to the substitutability between what human beings can derive from natural and produced capital. Natural capital itself is another idea to which the ecological economists have given wide currency.

Feminist writings have supplied, among other things, a focus upon caring labor and the nonmonetized economies of the household and community. This is something that I am now pursuing in work with the activist, Edgar Cahn, the inventor of an especially constructive local currency system called Time Dollars. Having recognized, thanks to the ecological economics movement, the essential interactions between the market economy and the natural economy, we may now be ready to recognize the equally essential contributions of what Edgar Cahn and I—building on feminist thinking—are calling the core economy. The concept of human capital has been around for a while; social capital is a newer term. Recognition of at least three major economies allows us to see that, while the market economy is responsible for much produced capital, as well as many final goods, its production and distribution depend upon the natural, human, and social capital that come out of the natural and the core economies. (I should note that the term "core economy" is an innovation I have been working out while observing some real-world situations in the Time Dollars context; it will get into the current, evolving edition of *Microeconomics in Context* before it is published in this country.)

The Marxist emphasis on social reproduction feeds into our conception of the core economy. Other critical contributions from radical economics also show up in the emphases of contextual economics. Many economists have given the issue of equity a more central place than it has in neoclassical theory, but the radical groups have been especially consistent in their attention to this value. Another, related emphasis is on power. Yet another example is a focus on the quality of the worker's life—an important antidote to the neoclassical tendency to judge economic success solely in terms of the choices available to consumers.

Institutionalist ways of thinking are especially congenial to contextual economics. The institutionalists have noted the ways in which economic outcomes both affect and are affected by all the other elements of what we have called the psychological/social context. They have contributed an enormous number of valuable insights into the social, cultural, historical, and so forth context of economic activity; but these insights have never been woven together into a cumulative discipline. Recognizing this danger, we have moved cautiously, trying not to throw out critical connecting elements of the neoclassical paradigm until we could at least dimly see what might be used to replace them. This has resulted in the problem that has been criticized by users of the early drafts of the textbook which have been informally circulating in the United States for the last year: that is, that we have not moved far enough away from the neoclassical methodology. We have made some—only a little—progress on this front; it remains one of our greatest challenges.

There are also the many elements that contextual economics recycles, sometimes reconfigured, from neoclassical economics. These include observations about how prices are set, including a not obvious focus on marginal changes. The well-known demand/supply diagram has not been replaced, though it has been hedged around with warnings—especially adjurations to remember that "demand" means "effective demand." Other practical features include, for example, information on some aspects of what is involved in production; and concepts such as externalities, or the distinctions between stocks and flows; or measurement tools such as the Gini coefficient and the Lorenz curve.

So what is really new about contextual economics? We have put together many existing ideas into a somewhat novel framework. Perhaps the single largest innovation is the degree of emphasis accorded to the issue of goals—the goals of economics itself, as a discipline, and the goals that people have in relation to their economic behavior.

3. An emphasis on human goals

In attempting to be a value-neutral science, neoclassical economics has often denied that it had any intrinsic goals of its own. Rather, the idea was that other people—policy-makers, businesspeople, and so forth—would determine their own goals, and then appeal to economics for assistance in achieving them with maximum efficiency. Examining this promise, it hinges on what we mean by efficiency, which may mean "achieving the desired goal with the least expenditure of resources"; or "achieving the maximum possible output with the given inputs."

The first of these definitions depends upon how resources are quantified. If the resources include, say, raw materials, various skill levels of workers' time, and produced capital, how will you know which bundle is the minimum one? Only when they are all measured according to the same numeraire: money. And how is a money-value to be assigned to them? That is easy: use price—ideally, an "undistorted" price, such as would emerge from the free operation of the forces of supply and demand, with no distorting interventions from government, and no market imperfections such as the possession by some actor of market power. Maybe this is not so easy after all; and it gets worse when we remember that by demand we *always* mean effective demand: the desire *and the ability* to make purchases. So when we seek that efficiency which will "achieve the desired goal with the least expenditure of resources," we are privileging those whose desires can be translated into effective demand; for they play the major role in establishing the prices according to which resources will be measured, and their quantity minimized.

The same logic applies to "achieving the maximum possible output with the given inputs"; for once again we have to measure the outputs in order to maximize them, and once again we measure them according to their prices, which are in part set by a system wherein one dollar equals one vote.

Contextual economics emphasizes that most of the goals cited by neoclassical economics—efficiency, maximizing production or consumption, earning money—are best understood as intermediate goals, that is, means to other ends. The relevant final goals might be defined to include, for example, the satisfaction of basic physical needs; happiness (including a balance of comfort and stimulation); self-respect and the respect of others; self-realization; fairness in the distribution of life possibilities; freedom; democracy and participation; and ecological balance. Contextual economics encourages students to begin by considering the relation between their own final goals and the intermediate goals (efficiency, economic growth, consumption) that are assumed in most economic discussion.

4. A different approach to consumption

In the contextual economics perspective, consumers are seen to play two quite different economic roles. One relates to the neoclassical assertion that final consumption is the ultimate purpose of all economic activity. In this view, production and distribution exist solely to increase the well-being of consumers. Here consumers are the *justification* for economic activity, and therefore also for economic theory. At the same time, consumers keep the economy going by generating demand for goods and services. Consumers as a source of demand are central to the *mechanism* that makes the economic system run.

Consumers themselves may have reason to feel differently about these two roles, and it may be in the interest of society at large to seek ways to reduce the importance of the second. A contextual economic understanding of consumers looks at what has been termed a "consumer society." This has emerged as part of an historical process which has created mass markets, industrialization, and cultural attitudes that ensure that rising incomes are used to purchase an ever-growing output. Today's consumer is not best understood as "the sovereign consumer." He or she is, instead, "the manipulated consumer." The manipulators are the producers (specifically, in their sales and advertising branches).

5. A different approach to production

Many of the ways in which the contextual economics approach to production differs from the neoclassical approach stem from a refusal to depend upon the theoretical ideal of perfect competition. It is widely recognized that this ideal diverges dramatically from the reality of modern markets. As a matter of positive science, it is time for theory to take the leap, to follow reality.

As a matter of normative science, it is necessary to distinguish between the *end products* of production, which derive their value solely from their contribution to the well-being of society and of individual consumers, versus the *process* of production, which has other values, related to the goals of all those involved. In addition to providing a source of income, for many people work defines a significant part of their role in society. Work is not only about producing a product or service; it also creates and maintains relationships. It may be a basis for self-respect, or a part of what gives life interest and meaning. These values are ignored in the overt consumer orientation of neoclassical economics, as well as in the covert orientation to maximizing sales. The maximization of sales does not necessarily maximize the well-being of either consumers or workers.

6. An example of taking the contexts into account

Ecological, political, and institutional contexts have been briefly touched upon in the earlier discussion of the debt owed by contextual economics to other heterodox theories. This section will briefly describe some of our efforts to pay due attention to the contexts of human motivations, ethics, and culture. These appear, in neoclassical economics, almost solely in the famous rationality axiom, which selects the pursuit of self-interest as virtually the only motivation worthy of economic attention. While it would be remarkably foolish to ignore this motivation, there is growing evidence that a culture which regards self-interest as synonymous with rationality risks destroying some of the foundations for a well-working economy, foundations that are now sometimes called social capital.

Our text describes several definitions of equity, proposing a variety of decision rules that can be selected or combined for different circumstances. In our chapter on households, and elsewhere, we present facts about gender inequities in home and work settings. Throughout the book we remind the reader of the dynamic realities of economic systems, raising awareness of how current activities may affect future generations. In assessing the success of economic systems, the text pays equal attention to distributive justice, to productive capability, and to definitions of well-being.

There is (at least) one chapter still to be written for the U.S. edition of *Microeconomics in Context*. Chapter 3 will be an economic history of the United States, organized to respond to the neoclassical economics assumption that it is reasonable to "take the existing distribution of resources as given." That phrase assures minimal attention to how it came about (in the past) that some people are rich, others poor, and others in between; or to historical explanations for how wide the gap is between rich and poor; or how much of the population is in the middle and at the two poles.

Chapter 3 will examine the economic history of the United States with an emphasis on seeking what explanations we can find, in the past, for the distribution of resources among people in the present. It will include material on the settling of America by Europeans; their land-grab from the indigenous peoples; how the land was divided among different groups; the natural resource base of the United States, and how it has contributed to the patterns of distribution of natural and other resources; what it meant for the evolving distribution of resources that the United States started out as a colony; the country's own history as a colonial power; slavery, and its consequences; education; immigration; and dominant industries, and how they have shaped our culture as well as our distribution patterns.[2]

---

[2] We are looking for an author for this chapter; suggestions are welcome.

7. Methods

It is useful in thinking about methods to remind ourselves of the ends they are to serve. Let us, therefore, briefly consider on what basis an economic theory should be judged.

An economic theory should contribute to an understanding of the workings of the actual economy to which it is directed.

As a science, it should provide this understanding in a manner that accords with scientific principles of evidence, logic, and so forth.

As a social science, it should also provide a basis for judging the success of the actual economy, and for choosing policies and actions that will cause the economy to develop in a healthy direction.

The neoclassical notion of what it means for a social science to be "scientific" is not the only possible approach.[3] Thinking this matter through afresh, it appears that certain basics must be present. These include:

- A respect for observed facts.
- A continual attempt by researchers to be as objective as possible. To this end the contextual economist is encouraged to be aware of personal values and possible biases.
- Recognition of a scientific community which can, collectively, compensate (to some degree) for one another's biases and arrive at more certainty than is possible for a single individual.
- Findings presented in such a way that the logic of the argument can be understood and assessed by the larger community of potential users.
- A structure that permits and encourages the accumulation of knowledge and understanding.
- Efforts to achieve a reasonable degree of internal consistency in the theory—noting, however, that a determination to achieve perfect internal consistency can result in premature closure, making it harder to incorporate later improvements.
- Openness to continual change, as the discipline accumulates knowledge and wisdom, as events disprove some tenets, as change occurs in the subject matter of the discipline, and as changing times require different emphases.

We have not yet dealt in detail with the methods to be used for teaching and applying contextual economics at more advanced levels. We anticipate that the methodological differences between our approach and the neoclassical will become wider at upper levels, where the neoclassical approach often devolves into little more than a specialized branch of mathematics. We suspect that web-based, hyper-text types of presentations may be important in allowing massive amounts of detail to be offered in such a way that the student can select the relevant ones for a particular problem. (The lack of such a technology has been one of

[3] For a more detailed discussion of methodological issues, see Neva Goodwin (1991) *Social Economics: An Alternative Theory Volume 1: Building Anew on Marshall's Principles*, London: Macmillan. This book is now out of print, but can be found in libraries, or acquired through the Global Development and Environment Institute at Tufts University.

the principal barriers preventing institutional economics from developing a cumulative framework.) Beyond this, we have as yet little to say about the methods that will prove to be most useful for higher level instruction and application of contextual economics.

This paper has offered a brief introduction to what it means for economics to be taught, learned, and understood in relation to the physical and psychological/social contexts in which real economies are embedded. There is a price to be paid for such contextualization: a loss in certain types of simplicity. However, what the neoclassicals have gained by simplifying their subject matter, they have lost by mystifying their methods and, except for the very best of them, their exposition. Our emphasis is on clarity of expression, reduction of jargon, and reference to a real world which, by its familiarity, is intrinsically easier to understand than a counterfactual world of perfect markets and robotically simplified human beings. We hope we are on the right track towards elaborating an economics paradigm that is relevant to major human concerns; whose methodology can be defended as scientific; and that is cumulative, coherent, applicable, and teachable.