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Book Reviews

Fred Moseley, editor
Heterodox Economic Theories: True or False?
Adershot, U.K. and Brookfield, VT: Edward Elgar Publishing Ltd., 1995
142 pp., $65.00

This is a book every economist could learn from, whatever may be his or her approach to economics. It deals with fundamental issues in economic method, centering on the questions economists ask and the validity of the answers generated by high theory. It is more than simply an evaluation of the heterodox economic theories that arose during the era of the Cold War. It involves a debate over the very nature and significance of economic science—and whether the word "science" can legitimately be used to characterize what contemporary economists do.

The heterodox economic theories examined here appeared simultaneously with the rise to dominance of general equilibrium theory in microeconomics, Friedman's version of the quantity theory of money, Lucas-Sargent macroeconomics, and equilibrium growth theory. High theory told the story of an ideal private enterprise, free market economy that maximized benefits and grew optimally, if only it could be free of government intervention. Keynes was wrong, Schumpeter was wrong, Veblen and Galbraith were wrong, unions were wrong. Free markets were right.

This right-wing economics became a new orthodoxy during the Cold War, when the industrial nations of the west were engaged in a battle for world supremacy with the state socialism and political authoritarianism of the Soviet Union. The conflict between capitalism and communism was fought on all levels, and economic "science" was involved. High theory in economics produced the perfect justification for the capitalist side in the war of ideologies.

Whatever may have been the goals of the theorists, high theory became ideology.

On the other side of the intellectual debate, the heterodox economists were critics of the capitalism of their time as well as the theories that described an idealized market economy. As the debate in this volume demonstrates, heterodox theory asked questions that the new orthodoxy ignored—because it could not answer them. And one conclusion the reader comes to is that none of the theories examined, both the heterodox or the orthodox, are either "true" or "false."

The framework for the debate in this book is Mark Blaug's critique of heterodox economics, focusing on Sraffian economics and the capital controversy, radical economics, and Marx's economics. Fred Moseley's introductory essay summarizes the key points in the essays that follow. Ian Steedman follows with an excellent explanation and defense of Sraffa and the neo-Ricardian position in the capital controversy. Roger Backhouse critiques Steedman's essay and Blaug replies to Steedman. In the next section Michael Reich defends radical economics, with an excellent review of how it developed and changed over the last thirty years. Wade Hands comments and Blaug replies. Finally, Fred Moseley has a strong defense of several aspects of Marxian theory, emphasizing Marx's predictions about the development of capitalism. Bruce Caldwell disagrees; so does Blaug.

In the process of the debate some telling criticisms of orthodox economic theory emerge. Look at the first paragraph of Blaug's reply to Steedman (p. 41), where orthodox economics "is actually about mathematical representations of economic systems which are only tenuously connected with real-world economies." Blaug makes the same criticism of Sraffa. A plague on both your theories for lack of empirical foundations or verification. Nevertheless, Sraffa identified a gaping hole in general equilibrium theory that remains to this day. The typical Arrow-Hahn or Debreu presentation is essentially a theory of how consumer preferences lead to a general equilibrium of prices. The production side is chiefly a black box. Sraffa, however, started from the production side of the equilibrium problem, concluding that a set of equilibrium prices could be derived from the production side, but only if the tradeoff between wages and profits were derived outside the model itself. Meanwhile, Joan Robinson had shown that the value of capital, and therefore prices, were indeterminate in neo-classical models because future prices were uncertain. These serious difficulties with orthodox theory raised by the neo-Ricardians were largely ignored as the two Cambridges quarreled over reswitching, capital reversing and Sraffa's basic and non-basic commodities. Maybe neither theory is "true" or "false." We still do not have a valid theory of the value of capital. Nor do we have a resolution of the Wicksellian issue of equilibrium in the market for capital as a fund of value while disequilibrium prevails in the market for capital goods. If Sraffian economics has serious flaws and lacks empirical verification, the capital controversy of the 1960s showed that neoclassical orthodoxy suffers from the same illness.

Wade Hands aims another barb at orthodoxy in the brief section on "Some Philosophy of Science" (pp. 71–72) in his critique of Reich's paper on radical economics. He cites Kitcher's concept of the "legend" that scientific inquiry is concerned with truth-seeking, and that science is moving systematically toward that goal. Defenders of today's economic orthodoxy make exactly that argument.

The history of economic thought (as distinct from the history of economic theory) tells us otherwise. Mercantilism, for example, was a system of state-building in the interests of kings and the national state. It was discarded when political power shifted from royalty to parliaments. The labor theory of value was originally designed by John Locke to justify private property. It was jettisoned when Karl Marx used it to argue that capital exploited labor. In our time, general equilibrium theory became a new orthodoxy at a time when the social order, under attack, needed an ideological belief system with which to defend itself. At the same time, the bastard Marxism of the Stalinist era was put to similar uses in the Soviet Union. While economic theorists may argue that they only seek truth, they also respond to the world around them, and they have no control over the social processes that determine how their ideas are used.

The section on Marxism was the least rewarding in the book. Fred Moseley devoted most of his paper to criticizing Blaug's critique of Marxism, which is based on the argument that Marx's predictions about capitalism were wrong. Moseley then defended Marx's theories of declining profits and the relative immiseration of the proletariat. Both Bruce Caldwell and Blaug read Marx differently. They argue that Marx predicted absolute rather than relative immiseration of the working class, which is a misreading of Marx's very sophisticated argument on this point, and they ignore Marx's equally sophisticated qualifications of the declining profits theory. But since Moseley and Caldwell-Blaug were talking about different things, the debate was never really joined. One is left with the feeling that one could learn much about modern capitalism by reading Marx, even if modern capitalism is quite different from the capitalism of Marx's day. But Marx must be read carefully, to get beyond the angry revolutionary to the careful theorist.

The emphasis on scientific method is one of this book's strengths. Mark Blaug has always argued that the propositions derived from logical-deductive models should be subjected to empirical verification. Well and good. Logical-deductive models that start with empirical data would be even better if one wants the model itself to replicate the real world. Each step in the chain of logic should be subjected to empirical verification, to keep the analysis in contact with reality. This is the pattern model type of inquiry that generates a growing understanding of the phenomenon under study through continuous interplay between induction and deduction. This method avoids the trap of Gödel's law: any long chain of deductive logic must contain propositions that can neither be proven nor disproven. We do not arrive at an understanding of the real world if we test only the predictions. And even if the predictions are wrong, as Caldwell and Blaug say about Marx, we can still learn a great deal from the analysis on which the predictions were based.

The great economists from Adam Smith onward, including Marx, used pattern models. They theorized about the real world of their time, not about an imaginary metaphysical utopia. Their work was empirical as well as theoretical, and—let us admit it—they all carried a lot of ideological baggage with them.

We come away from this book realizing that high theory in economics should not be judged on the basis of "truth" or "falsity," but on what can be learned from the varied menu that high theory presents to us. Sraffa, the radicals, and Marx were not stupid. Nor were Arrow and Hahn, Debreu, Friedman, Lucas, Sargent, or Solow. For that matter, neither were Marshall, Veblen, Schumpeter, Polanyi, Hayek, or Galbraith. All of them, heterodox as well as orthodox, should be judged on whether they help us understand, in the gestalt meaning of that word, this terribly complex phenomenon we call "the economy."

Daniel R. Fusfeld
Professor Emeritus of Economics
The University of Michigan
Ann Arbor, MI 48109

Dick Bryan
The Chase Across the Globe: International Accumulation and the Contradictions for Nation States
Boulder, Colorado: Westview Press, 1995
200 pp., $59.50 hb

Dick Bryan's *The Chase Across The Globe* is an excellent and highly challenging theoretical account of the globalization process and the role of the nation state in international accumulation. *The Chase Across The Globe* is a valuable resource for students of macroeconomics, international