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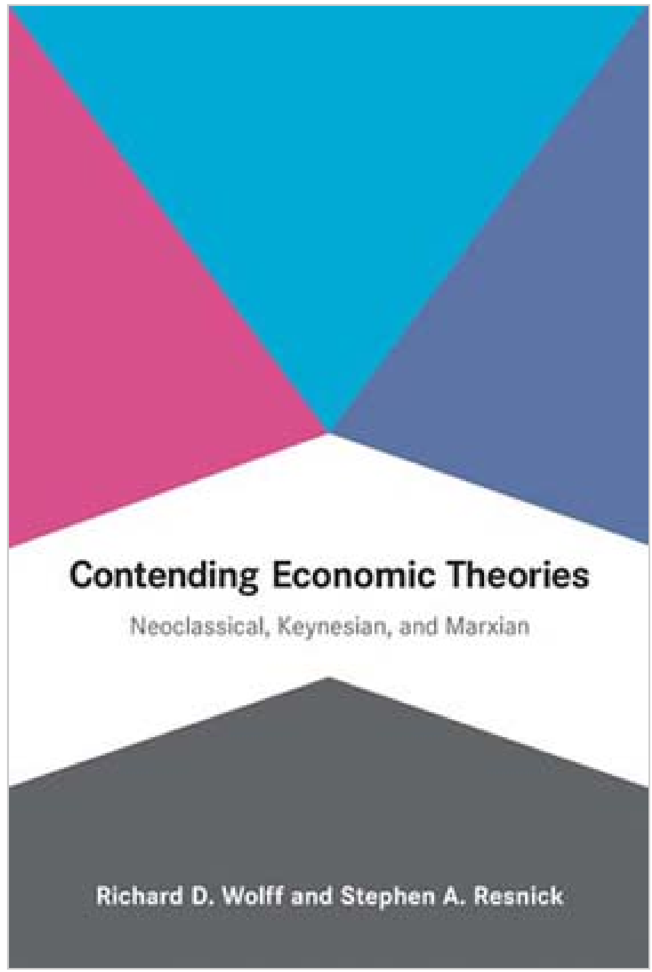
Dueling economics: a tale of three theories

Contending Economic Theories: Neoclassical, Keynesian, and Marxian. By Richard D. Wolff and Stephen A. Resnick, Cambridge, MA, The MIT Press, 2012, 416 pp., $35.00/ paper.



Roger Young
young.roger@bls.gov

Roger Young is a program analyst in the Office of Compensation and Working Conditions, Bureau of Labor Statistics.

As the world slowly emerges from a recession, contentions over the sources of decline and recovery are reigniting a debate among proponents of three disciplines of economics: neoclassical, Keynesian, and Marxian. In *Contending Economic Theories,* authors Richard Wolff and Stephen Resnick map out the positions taken by the respective theories and provide a helpful glimpse into the vast theoretical landscapes that lie behind their mathematical supply curves, production functions, and efficiency models. Illustrating these theories requires historical background and context but also calls for the slow unraveling of logical assumptions and perspectives that often are excluded from economic discussions. Wolff and Resnick deliver all this and more in a book that peers into the heart of the "dismal science."

It should come as no surprise that neoclassical, Keynesian, and Marxian economists all promote their respective theories as the most consistent with reality while dismissing alternative theories as inadequate. But, per the authors, what many theorists are reluctant to admit is that their evaluation of "relevant historical facts" is always guided by a specific logic that governs the selection of those facts. In other words, the way we interpret reality is heavily dependent on our own theoretical assumptions, in addition to a wider array of political, social, and economic conditions in which we find ourselves. What is important, then, is not just the "relevant historical facts" that give any one theory more credibility than another (although this is certainly not left out); rather, it is the way economists interpret the world by narrowly identifying key market trends, aspects of human psychology, criteria for efficiency, social hierarchies, and a whole range of other factors as significant economic determinants. By evaluating the particular logical foundations of neoclassical, Keynesian, and Marxian thought, the authors demonstrate how our view of the past, present, and future changes with the economic lens we select.

Introductory college economics courses typically teach neoclassical economics as the basis of a functioning economy. Its principles are often used as a conceptual framework to illustrate the widely assumed virtues of capitalism, including the tendency of market prices to reach equilibrium as the volume of supply and demand changes, thereby demonstrating the optimal valuation of resources that emerges from the natural forces of individual desire and scarcity. Students of economics will also likely be introduced to John Maynard Keynes, who, in the midst of the Great Depression, developed a devastating critique of neoclassical theory—in particular, its presumption that unrestrained markets and government non-intervention in markets would inevitably result in a stable and equitable economic system. Among other things, Keynes advocated a monetary policy designed to boost effective demand and investor confidence during economic slumps. The current “quantitative easing” program by the Federal Reserve is just one instance of Keynesian theory in practice.

From their detailed survey of neoclassical and Keynesian economics, Wolff and Resnick point out that these theories and their more recent variations rely on two opposing logical trajectories, one humanistic and the other structural. Neoclassical theory, borne out of an 18th-century intellectual tradition that revered the value of human agency and rationality, asserts that individual preferences and productive capabilities are the most basic determinants in any economy. Keynesian theory, with its emphasis on the influence of mass psychology and institutional power, argues that large, interrelated macroeconomic structures are what determine individual behavior. Knowledge of these two separate theoretical starting points is critical to understanding the differences between them, and the authors are painstakingly nuanced in their explanation of each. In highlighting these essentialist approaches, the authors also cultivate a balanced conceptual space for evaluating a third theory: Marxism.

Wolff and Resnick devote a large share of the book’s pages to an explanation of Marxism, primarily because it is the least understood (and perhaps the most vilified) of the three theories. For many readers, it might be tempting to dismiss Marxism as a serious economic alternative, given its unfortunate historical associations. Based on what we know about the rise and fall of the Soviet Union, and the widely held historical narratives of the past century, the mere mention of “Marxism” inevitably conjures up horrific images of oppressive Communist regimes and the devastating legacy of the Cold War. The authors warn, however, that it would be a mistake to “treat any one theory within the tradition as if it were the whole tradition” and misleading to equate Marxism with the interpretation and implementation given it by the former Soviet Union.

Between Marx’s death and the precipitous decline of the U.S.S.R., Marx’s theory (singular) devolved into a multitude of divergent—and sometimes competing—theories (plural), all of which had been adapted to the political and social urgencies faced by various socialist movements. It is important to note that most of these theories went far beyond the scope of Marx’s original work and led many to accept distorted stereotypes of its central tenets. Wolff and Resnick challenge those who have difficulty removing Marxism from its attendant stigma by reminding them that an interpretation of neoclassical theory was once used to support the tyrannical reign of Augusto Pinochet in Chile and Park Chung-hee in South Korea. Thus, while an association between neoclassical theory and repression is possible, it would be unwarranted to tie neoclassical theory to right-wing dictatorships and systematic torture.

Unlike neoclassical and Keynesian theories, Marxism rejects any kind of determinist logic and, instead, insists that all events or objects in the economy are overdetermined. Narrowly speaking, this principle means that it is impossible to account for or isolate every essential cause in the economy because all aspects of society—economic, political, and cultural—are mutually interactive, interdependent, and, therefore, constantly affecting one another in a process known as dialectics. The complexity of this idea—plus other postulations on class and exploitation—cannot be explained within the constraints of this review, but by following Wolff and Resnick's careful elucidations, it is difficult to deny the validity of Marx's critique of capitalism.

The authors also examine instability, a significant feature of capitalism that they feel most powerfully shapes the key differences between the three competing theories and that has many manifestations: boom, bust, crisis, panic, bubble, business cycle, upturn, downturn, recession, and depression among them. In their opinion, every case of instability is attended, first, by a popular demand for politicians and economists to account for said instability and, second, the gradual rise to prominence of one theory to explain it. The failure of neoclassical economics to prevent or even just mitigate the recent global economic crisis has led many to challenge the wisdom of limited government involvement in markets and unfettered market capitalism and will likely stimulate neoclassical theorists to reconsider and refine their positions. It has also reopened a space inside American political discourse where Keynesian and Marxian theorists, who have been largely excluded from legitimate policymaking since the 1970s, can regain credibility and influence.

The layperson might wonder why all this is important. Shouldn't lawmakers and economic institutions like the Federal Reserve simply evaluate the relevant situation and create policies to make things better? Ideally, yes. However, the way the world economy functions is not without ambiguities, and attempts to explain it must always begin—consciously or not—with normative assumptions and political dispositions that help us form a basis for understanding. That said, none of these theories should be treated as a monolithic insight into the true state of the economy; after all, each theory uses reasonable premises to explain the complex realities of markets, prices, scarcities, and abundance, yet draws a very different conclusion than that drawn by the other two theories. The disagreement is thus not over what the economic facts are, but rather, over the operating assumptions about human behavior used to interpret those facts.

Before reading this book one might ask, "Which theory will I choose?" or "Which one is correct?" After turning the final page, however, readers will likely realize that they should be asking a very different set of questions. As the authors plainly state, readers should "go beyond the simplistic notion that there is a right and a wrong economics. After all, the study of economics is like the study of any other group of theories: It requires attention to the differences among them rather than presuming and then searching for some finally and absolutely correct one." The goal of this book, then, is not to require the reader to choose between the theories presented; rather, it is to enable the reader to become deeply knowledgeable about the intricacies of each theory without establishing a dogmatic commitment to any one of them. It is the opinion of this reviewer—which should be taken as a challenge to all devout neoclassical, Keynesian, and Marxian theorists, in particular—that those who claim to know "which one is correct" should first read this book and give its contents some serious thought.