

Economics as Ideology and the Need for Pluralism

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Mainstream neoclassical economics – and no other economics – is taught at university departments of economics and at business schools in all parts of the world. The ideal is to build on one paradigm (theoretical perspective) and to extend this perspective in different directions to cover international economics, environmental economics, health economics and so on. The hope of neoclassical economists is furthermore to offer a useful paradigm that is as close as possible to the philosophy behind physics, chemistry and other natural sciences. Positivism in the sense of objectivity, value neutrality, testing of hypotheses and, whenever possible, mathematical presentation are some of the features of the neoclassical approach. A large number of scholars have vested interests in the monopoly position of the neoclassical paradigm, and since the 1970s, there has even been a Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel for extraordinary achievements.

Gunnar Myrdal is one of those who have received the mentioned Nobel Prize. Not unexpectedly, the Nobel committee emphasized his achievements within neoclassical economics, but contrary to other neoclassical economists he – at a certain stage in his career – openly declared his sympathies for institutional economics. He argued that the study of problems related to poverty, health and environment in developing countries and elsewhere has to be based on an interdisciplinary perspective. Myrdal also took an interest in theory of science issues and argued that it is an illusion that economics can be value-free and neutral. ‘Values are always with us’ in social science research (Myrdal 1978). We have interests in choosing one problem area for our studies rather than another and values are involved when making a choice among possible theories, methods and ways of presenting results. Scientific criteria

play a role in making all these choices, but so also do other values that make up the total ideological orientation of the scholar.

The 'fact' that ideology is unavoidably present means that the 'one-paradigm position' at departments of economics becomes untenable. Limiting economics to one paradigm means that one ideological orientation is emphasized at the expense of all others. This position is not compatible with normal ideas of democracy. Departments of economics should avoid the role of being political propaganda centres. With more than one paradigm as part of a pluralistic strategy, the ideological diversity in a democratic society will be better reflected. Furthermore, one specific paradigm, such as the neoclassical one, may perform well in relation to some fields of study while being more of a problem in relation to other fields.

In defence of the neoclassical monopoly position at departments of economics, it could perhaps be argued that there are other social sciences such as economic history, political science, business economics and sociology that are based on paradigms other than the neoclassical one. While this is true, my point here is that the monopoly of the neoclassical paradigm at departments of economics has a considerable impact on the understanding of economics among major actors in society. If their mental maps are largely influenced by neoclassical economics and if some categories of problems cannot be dealt with successfully within the neoclassical perspective, then we have a problem. I will argue that neoclassical economics is not enough – and is even part of the problems faced – in relation to present environmental and development issues.

In this chapter the one-paradigm idea of economics will be questioned. Those acquainted with the history of economic ideas – a subject nowadays often avoided at departments of economics – know that there have been many currents over the years. Among alternatives to neoclassical theory, institutionalism will here be emphasized. Comparing different paradigms, for instance neoclassical theory with institutionalism, is furthermore believed to be an important way of learning. In this way it is possible to illuminate not only differences in some narrow scientific sense but also the ideological tendencies connected with each paradigm.

ON THE MEANINGS OF PARADIGM, IDEOLOGY, PLURALISM AND DEMOCRACY

I have already used concepts that may be unfamiliar to some students. 'Paradigm' here refers to 'theoretical perspective' within a discipline or at an interdisciplinary level. Neoclassical economics with its microeconomics and macroeconomics is a good example of a relatively clear-cut paradigm. Microeconomics refers to individuals as consumers maximizing the utility of

alternative bundles of commodities within their monetary budget constraints and to business companies maximizing profits. Individuals and firms interact in markets for commodities and factors of production. Markets are understood in terms of the forces of supply and demand. Macroeconomics refers to the whole national economy where the state may influence all consumers and firms, for instance through monetary and financial policy.

As a paradigm, institutional theory may be less clear-cut. It is more accurate to speak of different versions of institutionalism. According to the one emphasized here, individuals and organizations are understood as 'actors' in the economy. Individuals are guided by their 'ideological orientation' and the same is true of organizations. Neoclassical Economic Man is replaced by a Political Economic Person (PEP), that is, an individual with many roles rather than exclusively the one of being a consumer. To understand the individual in the economy, roles such as the ones of professional, citizen and parent are also judged to be relevant. An organization is similarly understood as a Political Economic Organization (PEO). Firms or business companies are of course important players in the economy but so are governmental agencies, municipalities, environmental organizations, churches and universities. Individuals and organizations alike are understood as actors in a political sense. They all can influence the dialogue about the future of our societies, for instance issues related to taxation, environment and development more generally. They also engage in more limited roles in relation to markets of various kinds.

'Ideology' is here used in a broad sense as 'means-ends philosophy'. Ideology is based on beliefs about 'progress' at the level of society, of organizations and for the individual herself. Normally, each actor has a positive attitude to her 'ideological orientation' and there is no tendency here to use ideology in a derogatory sense. Established political ideologies such as liberalism or socialism are certainly included but also 'issue-related ideologies' such as 'business ideologies', 'health-care ideologies', 'transportation ideologies' or 'environmental ideologies'. According to the ideological orientation of some business actors, only monetary profits and other monetary indicators count while other business actors may point to the importance of a number of non-monetary dimensions, for instance the measurement of social and environmental performance. One health-care ideology may emphasize centralization of health care functions while another may point to the advantages of decentralization. One transportation ideology emphasizes time-savings in transport while another lays stress on the avoidance of negative impacts such as environmental pollution and traffic accidents. A compromise between different objectives is of course as 'ideological' as more 'single objective' ideologies.

Ideologies are seldom reducible to simple mathematical equations. To allow for complexity, the term 'ideological orientation' is preferred as a guiding

principle of individuals and organizations. An ideological orientation is typically fragmentary rather than complete; it is uncertain and subject to reconsideration (as part of public and private debate, for instance) rather than certain. The ideological orientation of an actor still serves as a guide with respect to direction of decision-making and behaviour.

'Pluralism' stands for a belief that competition between paradigms and ideologies is good for society. Each actor tends to believe in one paradigm and ideological orientation more than others. This belief can be of a 'fundamentalist' kind or combined with an open attitude in relation to other theoretical perspectives and ideologies. In the latter case of a pluralistic attitude, there is a willingness to listen and learn from advocates of other perspectives.

The opposite of pluralism is monism. In natural science, there is a tendency to believe in one paradigm at a time and then consider the possibility of paradigm-shift in a Kuhnian sense (Kuhn 1970). One paradigm may be abandoned when another is found to be more compatible with the results of empirical experiments etc. Neoclassical economists tend to be 'monists' in this sense. But today even some natural scientists are open to a complementary role for different paradigms in understanding specific phenomena. Paradigms that are incompatible within the current state of knowledge may each contribute to the understanding of a phenomenon, for instance light. In the case of economics, which is our main interest here, 'paradigm co-existence' (Söderbaum 2000: 29–30) appears to be a much more relevant idea than 'paradigm-shift'. The mistake by neoclassical economists is not that they believe in neoclassical economics but rather that they believe in the exclusion of other paradigms. While excluding theoretical perspectives, they at the same time exclude ideological orientations (other than those connected with neoclassical economics) and thereby reduce the possibilities of a constructive dialogue in society.

Most people who follow or participate in the development dialogue globally, regionally or locally understand that mainstream ideas about progress in society are challenged by an increasing number of factors. Simplistic ideas about economic growth as the solution to every problem are no longer convincing (see Hamilton 2003). In relation to poverty, health and the environment, there are a number of unsustainable trends. And it is no longer possible to 'solve' problems in the home region; we all depend on each other at a global level. In this situation of difficult choices we cannot only rely on experts but need a broad dialogue based on ideas of a well functioning democracy.

The meaning of 'democracy' is a big subject and I will here only point to one aspect that appears to be crucial. Each actor in a democratic society may believe in one ideological orientation more than others but should respect the existence of other ideological orientations as long as they do not contradict democracy itself. In attempts to solve present problems, we need to be informed

not only by experts in some scientific sense but also by clearly articulated ideological orientations. What is the meaning of Sustainable Development as an alternative to the previous emphasis on economic growth in GNP terms, for instance?

THE IDEOLOGY OF NEOCLASSICAL ECONOMICS

My previous statement that neoclassical economics is not only science but also ideology has to be elaborated a bit. While classical economists such as Adam Smith and David Ricardo always referred to 'political economics' in a broad sense, the neoclassical project starting around 1860 can be seen as an attempt to separate 'economics' from 'politics' and present a 'pure' economics. Following Myrdal, it is here argued that the belief in a value-free economics is an illusion and that the neoclassical project in this respect was a failure. It is now time to return to the 'political economics' vocabulary.

Neoclassical Economic Man assumptions are specific in ideological terms. Some roles and relationships are emphasized while others are excluded. Human beings are regarded as consumers and wage-earners, thereby limited to market relationships. The idea of utility maximization excludes other forms of ethics. Building on Political Economic Person (PEP) assumptions instead means that you do not deny the political and ideological aspect of human behaviour. Each individual is acting in many roles and guided by her 'ideological orientation'. This orientation may be built on utilitarianism, or alternatively on other kinds of social and environmental ethics. Economists have no right to select one ethics as the 'correct' one for purposes of economic analysis. Reference to 'ideological orientation' furthermore suggests that the neoclassical focus on commodities and markets may legitimize a kind of 'market ideology' and 'consumerism' that for many of us appears too limited, if not dangerous, to society. In relation to the current debate about Sustainable Development, something else is needed.

Neoclassical assumptions about profit-maximizing firms are similarly specific in ideological terms. As already argued, the focus on one kind of organization, that is, the firm, appears a bit strange in relation to the present dialogue about development and a well-functioning economy where many kinds of organizations are involved. Excluding Civil Society Organizations, like churches, universities, and public organizations at the national and municipal level, cannot easily be defended if one wishes to understand the functioning of an economy.

For business organizations (and other organizations), monetary performance is of course important but so is non-monetary performance. Environmental Management Systems are a case in point. Stakeholder models of business organizations suggest that rather than just maximization of profits, conflicts of

interest and power relationships are also relevant. According to Political Economic Organization (PEO) assumptions, the organization is furthermore 'polycentric' in the sense that each individual connected with the organization is an actor with her specific ideological orientation, which to some extent may depart from that of the leadership of the organization. Such tensions are not only problematic in a negative sense but may as well be a source of learning and reconsideration of the 'core values' or 'business concept' of the organization.

Each individual (or organization) interacts over time with her context. In neoclassical theory, only a market context is taken into account. As part of institutional theory, a multifaceted context is considered which is social, cultural, institutional (markets included), physical, man-made and ecological. Behaviour is guided by ideological orientation and may be habitual or a result of conscious choice, that is, decision-making. In neoclassical microeconomics, decisions are based on some optimization principle (maximum utility or maximum profits) devoid of other ethical considerations. Institutional theory does not deny egoism. Any healthy individual will consider her own best interests. But the individual is at the same time part of a number of 'we-contexts', suggesting that the concern for others is a normal feature in her ideological orientation. Amitai Etzioni has proposed an 'I & We Paradigm' (Etzioni 1988) where egoistic tendencies and concern for others are combined rather than mutually exclusive. Decision-making as part of the institutional perspective is furthermore not exclusively understood as 'optimisation' but rather as a 'matching' process between the ideological orientation of each decision-maker and the expected impact profile of each alternative. In this way not only quantitative but also qualitative and visual aspects of impacts become relevant.

In neoclassical theory, 'markets' are presented in terms of the 'forces' of supply and demand. Contrary to this impersonal view, actors in the market place can be made more visible as part of an institutional perspective. Each market actor is guided by an ideological orientation (according to PEP and PEO assumptions). Fairness and other ethical aspects may be involved in the relationship between two market actors. Each actor may furthermore be part of different networks of cooperation and the relationship between two actors may be cooperative as well as competitive. In business actor-network theory, trust is furthermore an important factor (Ford, ed. 1990). Each market relationship has a history and each market actor is embedded in a social and institutional context (Söderbaum 2002).

In neoclassical theory, 'progress' is assumed to be a matter of GNP growth at the national level, increased profits for organizations and utility-maximization for individuals. The alternative here is an ideologically open attitude to progress at all levels. Some actors are concerned about present environmental, social and institutional problems in society and may, for example, refer to a specific

definition of sustainable development as their idea of progress. At the levels of organizations and individuals there may similarly be many ideas of progress rather than one. Monetary and material aspects may be important but how they relate to non-monetary dimensions and ethical considerations has to be the subject of study rather than being veiled over.

CBA AND DEMOCRACY AS A CASE

Neoclassical economists claim to offer clear ideas about 'efficient resource allocation' in the economy. Reference is made to 'welfare theory' and 'applied welfare economics'. The practical instrument or method used is Cost-Benefit Analysis (CBA). Just as the firm considers monetary costs and revenues in attempts to estimate profits from alternative investments, a similar approach is advocated at the national level, that is for society as a whole. What are the costs and benefits in monetary terms of alternative investments in infrastructure such as roads, airports, dams etc.? Not only constructions costs, maintenance cost and benefits directly associated with the project are identified, but also all impacts affecting economic subjects in a nation. The market 'value' of single impacts is estimated with reference to existing markets, prices in comparable real markets or through fictitious markets, using the 'willingness-to-pay' approach. All costs and benefits connected with a project are then aggregated in monetary terms to a 'present value' or 'benefit-cost ratio'.

The claim that neoclassical economics has a clear idea about correct resource allocation as demonstrated in CBA analyses are correct. But this is at the same time a problem. 'Ideology' was previously defined as a means-ends philosophy and 'ideological orientation' was suggested as a guiding principle for different actors. CBA claims to rank mutually exclusive investment proposals. It builds on a specific idea of what is good and best for society in different decision situations and therefore qualifies as an ideology. As ideology, CBA is more precise than most other ideologies. Among all ideologies, CBA is a market ideology of a very specific kind. It is based on the belief that society should be understood in market terms and other frames of reference of a conceptual or ethical kind are thereby automatically excluded. As market ideology, CBA is close to the 'economic growth' ideology (Johansen 1977), an ideology that – as we all know – is not uncontroversial. Should science dictate the correct ideology for politicians, citizens and actors of different kinds? The answer is no. Some other role for science is called for.

What then are the alternatives to CBA? While CBA is a 'highly aggregated' approach one can think of 'highly disaggregated' approaches as alternatives (Table 1). CBA is also 'ideologically closed', whereas there are alternatives that are 'ideologically more open'. This means that there are four possible categories:

Table 1. *Categories of approaches to decision-making*

	Ideologically closed	Ideologically open
Highly aggregated	I	II
Highly disaggregated	III	IV

It is clear that CBA belongs to category I (highly aggregated, ideologically closed). Ezra Mishan, himself the author of a textbook on economics (1971), argues that CBA can only be used if there is a consensus in society about the approach to valuation and progress entailed in CBA (Mishan 1980). If there is no such consensus – and Mishan points especially to disagreements about how to value environmental impacts – the CBA method is no longer useful. If there is a diversity of ideological orientations in society, then CBA is no longer compatible with our ideas about democracy as previously indicated. In a democratic society, each citizen or actor is encouraged to form her own ideological orientation as long as it does not contradict democracy itself. This includes a right to have an opinion about what is good for society and how to relate different policy or project impacts to each other (Söderbaum 2001). The CBA ideology of trading-impacts set against each other in one-dimensional terms at ‘correct’ prices is just one among possibilities.

In its final report, the World Commission on Dams (2000) expressed scepticism about the use of CBA to legitimise the construction of large dams in various parts of the world. The issue of resettlement of thousands of individuals, in some cases tribal people who have been accustomed to a specific way of living and context, raises issues of ethics that cannot be solved by simplistic cost-benefit calculation. The World Commission on Dams pointed in the direction of Multicriteria approaches (MCA) that are more open-ended (Category II and IV in Table 1) but there are other possibilities as well, for instance Positional Analysis (PA). The latter approach (category IV in Table 1) starts with PEP assumptions, uses ‘systems thinking’ and ‘positional thinking’ with the purpose of ‘illuminating’ a decision situation in relation to different and possibly relevant ideological orientations (Söderbaum 2000).

CONCLUSIONS AND RECOMMENDATIONS FOR EDUCATION IN ECONOMICS

Today, there are many kinds of heterodox economics. Those of us who depart from the neoclassical mainstream do it in many cases for ideological reasons rather than scientific reasons in a narrow sense. We do not like the ideology of neoclassical economics and tend to regard the monopoly position of this specific ideology as an essential part of the problems faced in modern society.

Neoclassical economics is reasonably coherent in logical terms and may be useful for some purposes. While CBA belongs to the weakest elements of mainstream theory, other parts can be considered within the scope of a pluralistic attitude where the parallel existence to competing paradigms is accepted.

In this chapter, the 'political' aspect of economics has been stressed. As already mentioned, 'political economics' was the language used until 1870 when the ideas of a pure economics became dominant. This emphasis on ideology and the political aspects may appear strange to some students. But if ideology is involved and if various actors (such as trans-national corporations, for instance) play a political role in the economy, as I have argued, then this language has to be reintroduced in textbooks and courses in economics. The idea of Homo Politicus or a Political Economic Person has been supported in a number of articles recently (Jakubowski 1999, 2000, Faber *et al.* 2002, Siebenhüner 2000). A textbook on organizational theory discusses 'ideology' in one chapter and 'power' in another (Jackson and Carter 2000). I can understand if some professors and perhaps even students hesitate here, because the expert position of economists in an extreme sense is in danger if you admit that there is ideology in economics. On the other hand, this is a matter of being honest and it is quite possible that a different kind of expertness will restore the legitimacy of economics as a discipline in a democratic society.

Students of economics are normally acquainted with neoclassical theory but they too often know less about the history of economic ideas and about present alternatives to the neoclassical paradigm. Considering the present crisis for neoclassical economics, there are many good reasons to reintroduce courses about early economists and their ideas and to point to the tensions that have always existed between different schools of thought. Students should also have a chance to study institutional microeconomics, ecological economics and other alternative approaches. This means that professors of economics also have to broaden their competence. Present tendencies of conceptual and ideological closure have to be counteracted.

The importance of the 'models' we use in understanding individuals, organizations, decision-making, markets, progress and etc. has been stressed. Textbook writers are in a powerful position to influence future generations of economists and it is a difficult task to open up economics if one generation after another has become accustomed to only one idea of 'correct' economics. This argument about the role of 'models' or 'schemes of interpretation' at the same time furnishes reasons for optimism. While neoclassical economists tend to protect their monopoly in departments of economics, a lot happens in other arenas. Socio-economics, social economics, development economics, ecological economics, institutional economics, political economics, interdisciplinary economics – many labels are used to indicate the existence of alternatives.

'Models' of various phenomena play a role in an ongoing process of change. As part of neoclassical theory, individuals can be regarded as 'consumers' if you are in favour of a consumer society and see globalisation as an extension of market forces to make people happier in all parts of the world. If you instead want to emphasize the role of the individual as citizen (and indeed consider all roles, the one of being a consumer included) with democracy rather than markets as the main ideological priority, then some other form of understanding will follow.

An understanding of the ideological and political character of economics furthermore means that the future of economics is not exclusively a concern for professors and students at departments of economics. While university leaders and university professors are all responsible, politicians, professionals of all kinds and citizens can also contribute constructively. In relation to present environmental problems, and sustainability issues more generally, the European Union and national governments have a role. The present author recently participated in a workshop on 'Sustainability Economics' and 'international institutions for sustainability' at a respected German economics research institute (Deutsches Institut für Wirtschaftsforschung (DIW)). At a meeting with the World Council of Churches, the World Bank and the IMF in Geneva, I was similarly impressed by the position taken, roles played and documents produced by the representatives of churches.

I hope also that environmental organizations and civil society organizations will increasingly come to understand the role of neoclassical economics as a barrier to new thinking in the development dialogue. Behind the present activities of criticized institutions, such as the World Trade Organisation, the World Bank, the IMF and even in some respects the European Union, is a 'mental map' held by the influential actors which is very much connected with neoclassical economics. Only with a pluralistic attitude allowing for more than one paradigm will a better world be possible. A degree of competition rather than monopoly and protectionism seems to be good for society in a number of arenas, universities not excluded.

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