

What are the economic
challenges of our future?
how will economics
answer them?

ECONOMICS
in the
FUTURE
towards a new paradigm

edited by Kurt Dopfer
with Jan Tinbergen
Harvey Leibenstein
Sir Roy Harrod
Gunnar Myrdal
K. William Kapp
Shigeto Tsuru

ECONOMICS IN THE FUTURE

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Edited by

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Part One

A Framework

1 Introduction: Towards a New Paradigm*

Kurt Dopfer

Time Present and Time Past
are both perhaps Present in Time Future,
and Time Future contained in Time Past.

T. S. Elliott, *Four Quartets*.

I Purpose of the Book

Economics has always been in a crisis since it broke away from social philosophy in the late eighteenth century. But from time to time this crisis has been particularly acute. Such was the case at the turn of the last century when the classical predictions proved less and less true and, in response, the marginalist schools emerged. Such also was the case at the beginning of the 1930s when the proof of the established harmony propounded in that theory was contradicted by the Great Depression, giving rise to the new macroeconomics pioneered by Keynes. There is no

* I gratefully acknowledge comments and suggestions by Professors Takao Fukuchi, Takuma Yasui, S. D. B. Picken and Mr Mitsuo Sasaki. I owe a particular token of gratitude to Mr Lee E. Edlefsen who supported the project in many ways and also made useful comments on my essay. The responsibility for any remaining errors is my own.

doubt that contemporary economics is in a crisis, at least if crisis is defined as the inability to meet the challenge of the times. Problems like mass poverty, unbalanced affluence, increasing regional economic disparities, imbalances in population development, irrational disposition of non-renewable resources, and production and consumption processes ill-adjusted to the limited carrying capacity of the environment are among many pressing problems awaiting solution by economists.

The purpose of this book is to bring together responses from leading economists to these problems. Given the vast subject-matter, it is only to be expected that the specific emphasis given to various approaches differs among the authors. In a way one is reminded of the old Buddhist parable of the six blind men who meet an elephant and who, after having carefully touched the object, cannot agree whether it is a tree trunk, a wall or a rattlesnake. However, despite the different emphases given to the subject-matter and the differences in the approaches suggested, there is apparent consensus that changes in the science of economics are called for if it is to respond to the problems of the future.

The purpose of this introduction is to provide a framework for placing, comparing and evaluating the ideas of the contributors. The framework is organised with a view to the question of the areas in which changes are likely to occur.

II The Nature of Changes

Changes and, as their result, progress, occur in science in two fundamentally different ways. Changes may refer to a hypothesis, a theory, or a whole corpus of interrelated theories. Changes then occur when a hypothesis is contradicted by the facts by way of empirical testing, and, subsequently, is rejected and replaced by a new one. There are, however, other more fundamental changes which occur outside the conventional process of acquiring scientific knowledge. Such changes refer to the whole underlying structure of the scientific process, the kind of questions considered to be relevant for a science, the qualifications to its answers, the body of methods and techniques for testing of theories, the commonly consented degree of rigour required when accepting or rejecting theories, the institutional setting in which the researchers operate – in short, the whole set of factors which Kuhn combines in the notion ‘paradigm’.¹ A change may

occur when the ruling paradigm proves to be inadequate as a starting point for relevant questions and for the formulation and testing of theories. Such 'paradigm shift' does not obey the usual testing procedure as propounded by Popperian logic; falsification and verification are never directed to the paradigm itself. It is, therefore, conceivable that, in a science over long periods of time, the peculiar situation may prevail where 'scientific progress' occurs within an inadequate paradigm.

We may now restate the question asking whether the future changes in the discipline of economics will constitute a paradigm shift. Is the current paradigm a basis which calls forth the right kind of questions, allows for the formulation of relevant theories, suggests an appropriate degree of empirical testing, and, ultimately, proposes meaningful solutions to the most pressing problems of the future? Before turning to these questions, we will consider the current paradigm of economics to which changes have to be related.

III The Current Paradigm

It may be generally agreed upon, and Tsuru states it explicitly (see Chapter 7), that the current paradigm is largely constituted by what is called 'neoclassical theory'. The central object of investigation within this paradigm is the *market*. Institutionally, the market is conceived as being composed of many individuals – the 'atoms' – who enter the market scene either as consumers or producers. Their activities are confined, as Leibenstein accurately observes (see Chapter 3), to activities within the market context, precluding economically relevant activities in non-market contexts. The explanation of their behaviour rests entirely on the assumption that they will try to *maximise* their *own satisfactions*, and, in pursuing these, will behave *rationally*. These behavioural assumptions have never been specified analytically in their psychological and sociological complexity nor have they been subject to empirical scrutiny. Their roots can be traced back, as Myrdal recalls (see Chapter 5), to the philosophy of utilitarianism and the hedonistic associational psychology of the eighteenth and nineteenth centuries.

The economic problem with which the individual is typically confronted is to make a 'best' *choice among given alternatives*.² The basic conditions under which the maximising individual operates are exogenously determined and do not change in the