Toward a Democratic and Political Understanding of Economics

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Abstract: Economics is understood by many as an established discipline. It is about “allocation of scarce resources” and the main actors are firms, consumer/households and the state. In the present essay, an alternative definition of economics in terms of multidimensional thinking and democracy is proposed and the main actors in the economy are “political economic persons” and “political economic organizations.”

It is argued that the now dominant neoclassical theory is specific not only in scientific but also in ideological terms and that the same holds for any alternative paradigm. In relation to present challenges, such as climate change and biodiversity loss, neoclassical theory and the related neoliberalism, being behind the present political economic system, has not been performing well enough. While not excluding action within the scope of mainstream theory, we therefore need to extend the research and educational agenda in economics to alternative paradigms and ideological orientations. A political economics view is proposed which claims to be compatible with democracy.

INTRODUCTION

Thousands, if not millions, of students learn economics from the same or similar textbooks in all parts of the world. The conceptual framework and theories presented is that of neoclassical economics and there is a close to monopoly position for this particular theory. This dominance for one particular theory has the positive outcome that economists from different parts of the world can easily talk to each other. It is also reasonable to expect that neoclassical theory is helpful for some purposes. At issue is however if neoclassical theory is useful for all purposes.

Is one theoretical perspective enough or should we, as economists, articulate more than one perspective? Do we need more than one perspective in relation to present challenges such as climate change, poverty or other aspects of sustainable development? In the present article, I will argue in favor of a more pluralist attitude to economics as a science.

Neoclassical economics can be described by reference to the textbooks used, such as Gregory Mankiw’s “Economics” (Mankiw and Taylor, 2011). Economics is compared to physics, the idea being that economists should be able to explain what happens in the economy much like various phenomena are explained in physics. Experimental evidence should be used whenever possible and economists are expected to inform actors involved in governance of the economy at the macro and micro levels. Mathematical modelling is a preferred approach when attempting to explain and predict the impacts of various policy options. This tendency of neoclassical economists to connect neoclassical theory with mathematics (while downplaying the role of other languages) has been criticized by Tony Lawson (2015) among others.

There are certainly situations when mainstream neoclassical concepts and modelling efforts are useful, for example when estimating impacts of tax reform. But in relation to sustainability issues, also other perspectives are needed and may add to our understanding. One first step is to focus on the very definition of economics as a discipline.

A PLURALIST AND DEMOCRATIC INTERPRETATION OF ECONOMICS

In the mentioned textbook by Mankiw, economics is defined in traditional terms as management or “allocation of scarce resources” (Mankiw 2011, p. 2) where resources are understood largely in monetary terms. Among actors in the economy, focus is on consumers/households and firms. They interact in three kinds of markets (markets for commodities, labor and financial capital) with state regulation of markets as a possibility.

Economics can alternatively be defined as:

“Multidimensional management of (limited) resources in a democratic society”

This view of economics is still mainly connected with decision situations and decision-making. But impacts of decisions are described and considered in multidimensional terms. Costs and benefits are of a monetary and/or non-monetary kind and there are normally many kinds of non-monetary impacts. According to this holistic conception of economics, the neoclassical strategy of transforming all kinds of impacts to their alleged monetary equivalents is abandoned. The monetary and various non-monetary impacts connected with an alternative of choice are described separately in multi-dimensional profile terms.

This way of describing impacts in profile terms (rather than in one-dimensional monetary terms, so called “monetary reductionism”) is part of a different view of decision-making from that of neoclassical search for optimal solutions. A “matching” view of decisions is proposed where the multidimensional value or “ideological orientation” of each actor as decision-maker is “matched” against the equally multidimensional impact profile of each alternative considered.

“Ideological orientation” relates directly to the second part of our definition of economics. We are emphasizing the fact that ours is a democratic society. In a democracy, the values and ideological orientation of each individual or citizen is respected (as long as the values/ideology does not go against democracy itself). Taking democracy seriously has implications for the view of actors in the economy, such...
as individuals and organizations where issues of responsibility and accountability become relevant. This in turn leads to a different view of markets, of the act of making decisions and of approaches to decision-making and of structural and institutional change processes:

- A “political economic person” (PEP) is suggested as alternative to neoclassical Economic Man assumptions. PEP is an individual with many roles and relationships understood in socio-psychological and political terms.

- A “political economic organization” (PEO) is proposed as alternative to the neoclassical profit-maximizing firm. Again issues of responsibility and accountability come to the floor.

- A “political economic market”. Markets are understood as interaction between PEP:s and PEO:s as potentially concerned actors (rather than neoclassical mechanistic ideas of supply and demand).

- A “political economic view of decisions and decision-making”. Approaches to decision-making (such as positional analysis, PA) should be compatible with democracy, the purpose being to illuminate an issue for decision makers and other affected or concerned actors who differ with respect to ideological orientation (rather than solving problems in a technocratic manner as in neoclassical Cost-Benefit Analysis, CBA).

- A “political economic view of institutional change processes” where the ideological orientations of individuals play a role in a power game for minor or major institutional adjustments to perceived problems.

I will return to parts of this conceptual framework in the pages to follow.

From “paradigm-shift” to “paradigm coexistence”:

Neoclassical economists tend to see their theoretical perspective in Kuhnian “paradigm-shift” terms (Kuhn 1970). Neoclassical theory is considered the single correct paradigm until some possible future point in time when a different paradigm performs better in explanatory terms and becomes dominant. It is here argued that this reasoning in either-or terms is a mistake particularly in relation to economics and other social sciences. A move away from “paradigm-shift” toward “paradigm coexistence” (Söderbaum, 2000 pp.29-30) is proposed.

The present situation with a claimed monopoly for neoclassical theory is built upon beliefs that economics can be a value-free social science or at least that a distinction between “descriptive” and “normative” statements can be upheld. As argued by Gunnar Myrdal, an institutional economist who received the Bank of Sweden prize in economic sciences in Memory of Alfred Nobel, “values are always with us” in social science research and education:

“Values are always with us. Disinterested research there has never been and can never be. Prior to answers there must be questions. There can be no view except from a viewpoint. In the questions raised and the viewpoint chosen, valuations are implied. Our valuations determine our viewpoint. In the questions raised and the viewpoint chosen, there must be questions. There can be no view except from a viewpoint. In the questions raised and the viewpoint chosen, valuations are implied. Our valuations determine our viewpoint.” (Myrdal, 1978, pp. 778-779)

In a recent book, Tanja von Egan-Krieger similarly argues that value-free economics is an illusion (2014). In the book she scrutinizes mainstream neoclassical theory as well as different heterodox schools of thought, i.e. feminist economics, classical institutional economics and ecological economics. Neoclassical economists therefore have to abandon the idea of a value-free or value-neutral economics. Also descriptive statements are based on some perspective that is both scientific and ideological. Von Egan-Krieger’s conclusion is that also the heterogeneous schools of thought she has investigated are specific in value and ideological terms. Actually, the fact that heterogeneous schools of thought exist is not only a matter of science but also ideology, feminist economics being an obvious example.

A conclusion then is that neoclassical economists, neither in textbooks, nor elsewhere can hide behind assumptions of value-neutrality. Our emphasis on democracy and the fact that ideology is involved in turn suggests that a monopoly for one school of thought should be avoided. Such a monopoly is ideologically specific and not compatible with democracy. Economics need to become democratized (Söderbaum and Brown, 2010).

Individuals as actors in all kinds of roles are regarded as “political economic persons”. This is also the case with us as researchers and educators in economics. We are actors guided by our respective ideological orientations. When doing research, teaching or participating in public dialogue and policy-making, we should openly face value issues. Actually, compatibility with democracy in analysis becomes a criterion (or set of criteria) for good science and education. Analysis based on the specific ideology of neoclassical economics is still one among possibilities.

One implication of this is that the idea of one single model for individuals (organizations, markets) is no longer appropriate. Rather we should consider more than one model for individuals, organizations etc. that each potentially can add to our understanding. In relation to sustainable development it becomes relevant to also focus on differences and similarities between individuals in specific roles (consumer, business leader) and on differences (similarities) in their ideological orientations. A study of professors in economics with respect to their ideological orientations becomes very relevant indeed. Much like actors in other roles, we should take our responsibility and accountability in a democratic society seriously.

THE CONCEPT OF IDEOLOGICAL ORIENTATION

When dealing with evaluation or assessment, most economists use the word “value”. I also use this word but my emphasis is on “ideology” or “ideological orientation” as more holistic concepts. “Value” in economics has become so much associated with “monetary value” as part of one-dimensional analysis and my ambition is to also bring in other kinds of values. “Ideology” or “ideological orientation” is about “means-ends relationships”. It is about judgments about present position, about desired future positions and how to get there (strategy).

The word “ideology” has been used mainly at a collective level when referring to the ideologies of political
parties, such as “Green” ideology or “Neoliberal” ideology. There are specific ideologies that relate directly to the vocabulary in economics, such as “economic growth ideology” (in GDP-terms), “market ideology” or “shareholder value ideology” and may be shared by two or more political parties. In the book “Political Ideologies. An Introduction”, Iain MacKenzie suggests a general definition: “Ideologies help us make sense of the complex social world in which we live. They do this by providing a description of society, an intellectual map, which enables us to position ourselves in the social landscape. Yet, in providing a description of social reality, ideologies also embody a set of political ideas that detail the best possible form of social organization. Along with a map of social reality comes a picture of an ideal society. An ideology, then, provides both an account of existing social and political relations and a blueprint of how these relations ought to be organized.” (MacKenzei, 1994)

When turning to individuals as citizens, politicians refer to their ideological orientations and citizens are expected to respond to these invitations when voting for example. This suggests that “ideology” and “ideological orientation” is a relevant and useful concept also at the level of individuals. Among economists, not many use the concept ideology at all and even fewer use it at the level of individuals. Douglas North is however an exception and I share the view expressed by North: “By ideology, I mean the subjective perceptions (models, theories) all people possess to explain the world around them. Whether at the microlevel of individual relationships or at the macrolevel of organized ideologies providing integrated explanations of the past and the present, such as communism or religions, the theories individuals construct are colored by normative views of how the world should be organized.” (North, 1990, p. 23)

Individuals as actors relate to different ideologies that they know of. An actor believes more in one ideology than another and may regard some ideological orientations as constructive and other orientations perhaps as dangerous for individuals as well as society. Ideology or ideological orientations, as here understood, are only exceptionally, if at all, expressed in quantitative terms and human behavior is not reduced to equations. An ideological orientation may consist of visual, qualitative or quantitative elements. It is normally fragmentary rather than complete and uncertain rather than certain.

Why bring in concepts such as ideological orientation? My answer is that politics, for example in relation to sustainability issue scan hardly be dealt with exclusively with technical analysis and the solutions that follow. We need to bring in the beliefs, engagements and concerns of people. And we need to critically examine and discuss how economics as a science influences such beliefs and concerns. Problems are not only technical and scientific (in a narrow sense) but also ideological. If we exclude dialogue at the ideological level, then we may miss chances of dealing constructively with sustainability problems (and other problems).

A POLITICAL ECONOMIC UNDERSTANDING OF INDIVIDUALS, ORGANIZATIONS AND MARKETS

The assumptions made in neoclassical theory are specific in ideological terms. Economic Man assumptions emphasize self-interest and focus on the role of individuals in relation to markets, for example as consumers. The individual is maximizing utility subject to a monetary budget constraint. This view is relevant for some individuals and situations but contributes to make self-interested behavior legitimate at the expense of other-related behavior. Our concept of ideological orientation is compatible with selfish behavior. But it also opens the door for ethical and other broader considerations. The word “concern” plays a role in this. Individual A may be concerned about the impact on other persons (in addition to her self-interest) by behaving in a particular way. This engagement or concern is part of her “ideological orientation”. Concepts such as “fair trade” or “eco-friendly products” become understandable as part of political economic person assumptions. It should be observed that the idea is not to argue that all individuals always are broad-minded and concerned about the larger society. The important thing is that broader concerns are not excluded but rather encouraged. The task of the economist is rather to investigate in each case the ideological concerns of each actor. And it may vary for a single actor depending upon situation.

The individual interacts with other individuals and her context more generally. Information, knowledge, experiences are exchanged, suggesting that the individual can learn and change her ideological orientation. As actor, the individual may become less or more concerned over time about sustainable development in some sense.

Actors in business and other organizations may similarly modify or change their concerns as part of ideological orientations. The neoclassical idea of monetary profit maximization or “shareholder value” is just one among possibilities. It becomes relevant to discuss Corporate Social Responsibility (CSR), what it means in the practical case of a specific corporation.

A business leader or other actor may be concerned about conflicts of interest in relation to company objectives or operations. The observation that shareholders and business leaders are not the only “stakeholders” suggests a more complex view than the single-minded focus on the monetary dimension. Stakeholder models of organizations have attracted interest since the 1960s (Rhenman, 1964, Freeman 1984, Freeman et al., 2010).

Actors may furthermore think in terms of “networks” of relationships and trust (Ford ed., 1990, Håkansson et al. 2009). Each organization, for example a corporation, is part of a network where each component is dependent upon other parts of the network. It is no longer easy to delimit one company from another and it becomes less realistic to refer to one single “concern”, such as monetary profits for one component in the network. Each actor connected with the network will make her judgments about the relative importance of different relationships as part of the network.

As previously mentioned the market is in neoclassical theory understood in terms of supply and demand as
mechanistic forces. Our political economics perspective focuses instead on PEP:s and PEO:s as market actors. The ideological orientation of individuals or the “mission” of corporations as actors becomes relevant. Concerns about “fair trade”, “ecological food products”, “local produce” etc. become potentially relevant. In recent literature one may find reference to “concerned markets” (Geiger et al. eds, 2014) although in my understanding it is market actors who are “concerned”. Actor A may meet actor B in dialogue and negotiations carried out about conditions of a transaction where price is only a part.

At issue is now whether “stakeholder theory” or “network theory” and the “political economic view” of individuals, organizations and markets should be regarded as part of a paradigm different from neoclassical theory. When faced with such questions, neoclassical economists tend to see all models as compatible with the mainstream (but not contributing to it). It is then argued that business leaders consider all kinds of conflicts (between stakeholders) in their effort to maximize profits. Actually, all considerations or concerns will be subordinated to the neoclassical scientific and ideological perspective. Thinking in terms of “paradigm-shift”, the neoclassical economist will look for all kinds of arguments in defense of existing theory.

As part of a “paradigm coexistence” perspective, the advocate of one paradigm need not be scared when hearing about competing perspectives. A decision situation will be illuminated differently depending on if it is based on a political economics perspective informed also by stakeholder and network models. And taking democracy seriously, certainly will call for approaches in preparation of decisions that differ from neoclassical theory and analysis.

**A POLITICAL ECONOMIC VIEW OF DECISION MAKING AND PREPARATION OF DECISIONS**

Human behavior is largely habitual. Individuals as actors add experiences of relatively successful behavior in specific situations and do not always consider alternatives of choice. But sometimes habits are challenged by new ideas and new information. Decision situations at all levels from the more private sphere to the organizational, local, national and international levels are often characterized by complexity. How can one prepare such complex decision situations? Do we get some guidance from ideas of a well-functioning democracy?

Focus here will be on decisions in local and national government concerning infrastructure investments such as roads, airports, dams and other parts of energy systems. This is where neoclassical economists recommend Cost-Benefit Analysis (CBA) with its focus on markets and the monetary dimension. So called “present values” are estimated for each alternative of choice.

Democracy is about observing human rights and encouraging participation of citizens in public affairs. It is about respecting the knowledge, experiences and opinions of those affected or concerned about specific issues. Democracy is also about formal rules for voting procedures in elections and for decisions in local and national governments. Power to act becomes legitimate through democratic processes. The power, opinions and situations of different actors, influencing the process, should be made visible.

When evaluating specific methods to prepare decisions in relation to democracy, such as CBA or Positional Analysis, the following criteria can be used:

- Does the method systematically favor some alternatives or do the alternatives have equal chances?
- Is the method encouraging participation by affected and concerned actors in the decision process? If yes, in what ways is participation made possible?
- Is the method respecting differences with respect to ideological orientation among affected and concerned actors? If no, is the method biased in favor of a specific ideology?

Neoclassical CBA is doing well according to the first criterion but not for the second and third. In CBA, affected parties have a saying only if that is stipulated by law, for example in cases of expropriation of land, and there may also be a chance to respond to “willingness-to-pay” questions. But such questions are asked within the scope of the neoclassical conceptual framework and ideology. Neoclassical economists who advocate CBA in fact dictate a specific market ideology to be applied in finding out what is considered an optimal solution (the highest present value). This reliance on analysts as experts is rather a case of technocracy than democracy.

Ezra Mishan, himself a textbook writer on CBA (1971) has later (1980) argued that CBA in fact builds on the assumption of a consensus in society about how to value single impacts as part of an aggregation process. If such a consensus does not exist then CBA can no longer be used. Mishan pointed to environmental issues at the time where values and ethics differed considerably. And there are few signs that this diversity of opinions has been reduced in recent times.

In the present essay, Positional Analysis, PA, is instead recommended, an approach that claims to be more compatible with democracy. The purpose of a PA-study is not to “solve” an issue by dictating the ideology to be applied but rather to “illuminate” it for affected and concerned actors who (normally) differ in ideological orientations. Any conclusions (in the form of ranking of the alternatives considered for example) will be of a conditional kind. Ideological orientations that emphasize monetary market values may lead to a ranking that differs from an ideological orientation where sustainable development in a specified sense is the priority.

Approaches that have been proposed in decision situations, such as the ones mentioned, are classified in Table 1 as being ethically/ideologically closed or open and whether they are one-dimensional (aggregated) or multi-dimensional (disaggregated). CBA then belongs to category ‘a’ whereas PA is a multi-dimensional approach that is ethically/ideologically more open (category ‘d’).
A first step in a PA-study is to identify ideological orientations and alternatives of choice that appear to be relevant among decision makers (for example politicians) and other concerned actors. “Many-sidedness” is a criterion in this work which is based on the democratic idea of listening to many and different voices. The idea of a consensus is regarded as a special case and differences of opinion the normal case. It is believed that dialogue among actors who respect each other will improve creativity in the democratic decision process.

It is not possible here to go into detail about Positional Analysis (see Söderbaum, 2000, 2008). There is a need however to explain the name of the approach. Why this reference to “position” in PA? Expected impacts in a decision situation can be classified in four categories (Table 2). A flow refers to a period of time whereas a position refers to a point in time. Monetary flows and positions are certainly important in our present political economic system but PA also focuses on non-monetary flows and positions (’g’ and ‘h’ in Table 2) where neoclassical theory has little to say. From its very beginning (Söderbaum, 1973) focus in PA has been on inertia in non-monetary dimensions of different kinds. Irreversibility, commitments, lock-in effects, path dependence are parts of this. These phenomena include, but are not limited to physical or ecological dimensions as suggested in the now popular concept “resilience”,

Table 1. A classification of approaches to decision-making

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<th>Ethically/ideologically closed</th>
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<tr>
<td>One-dimensional (aggregated)</td>
<td>a</td>
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<tr>
<td>Multidimensional (disaggregated)</td>
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When investing in a new motorway as an example, the monetary cost of purchasing land or compensating farmers or others for their estimated losses can be estimated. But the non-monetary irreversible impact of transforming agricultural land or forest to asphalt surface is an economic cost in itself that is judged essential by some actors. We are back to the fact that we in most cases have to deal with different ideological orientations and that articulation of these varying ideological orientations and conflicts between them is not something to hide but phenomena that may help us find paths to what a majority of citizens look upon as a better society.

A POLITICAL ECONOMIC VIEW OF SOCIAL MOVEMENTS AND INSTITUTIONAL CHANGE PROCESSES

Neoclassical theory focuses on markets and the preferences of individuals with respect to commodities. Consumers have their preferences and presumably in an attempt to be neutral with respect to values, the neoclassical economist tends to accept all preferences as equally valid. But some of the social and economic problems we face today have a lot to do with the preferences and life-styles of individuals. Individual A may per year contribute 100 times more to CO₂-emissions than individual B. Any claimed value-neutrality in this case benefits A.

This is an example of how “ideology” and “ideological orientation” need to be brought into economic analysis to make it meaningful in relation to present challenges in the larger society. Hiding behind (somewhat mystical) ideas of harmony and equilibrium in markets can be regarded as another attempt to be neutral or avoid value issues but in fact eliminates the ideological orientations and missions of actors from consideration.

The motives and behavior of individuals as actors in different roles are essential for any attempt to deal constructively with climate change issues, biodiversity, environmental pollution or equality issues for that matter. Cooperative efforts, in the form of social movements and otherwise, are equally important to initiate and influence institutional change processes. Political parties are sensitive to social movements and try to learn from and influence them in their own perceived interests. Ideological debate takes places in various communities and even at a global level. There are often conflicts of interest, for example with vested business interests involved. But even industry may respond to existing and emerging social movements as in the case of “eco-friendly products”.

Institutional change can be established through changes in the laws decided by national parliaments. But institutional change is also often the result of individuals and/or organizations working together more independently of state legislation. Institutional change processes can be understood as part of an “actor, agenda, arena” conceptual framework. Some actors as PEP:s and PEO:s may see problems with present formal and informal rules of the game and may perceive ways of constructively dealing with the problems. They may act at various arenas, for example newspapers and conferences, to bring together actors with similar interpretation of the situation and interests. An agenda articulating the need for change and constructive proposals is articulated. At some stage a new order is manifested in the form of organizational change, new professional roles etc. The more actors that accept the new ideas with connected behavioral patterns, the more legitimate the new institutional arrangements become. In broad terms, one may refer to four processes that are parallel in time:

- Interpretation
- Acceptance
- Manifestation
- Legitimation

The introduction of Environmental Management Systems (EMS) may serve as an example of institutional change processes. At some stage, a small number of business or other organizations realize that accounting systems in business are limited to the monetary or financial aspects while also business environmental performance is of importance. Ideas about how to measure and account for
environmental performance are presented and at some stage an international standardization scheme, ISO 14 001 is manifested with connected rule system for auditing practices etc. If an increasing number of actors accept the new ideas, legitimacy is increased. Similar systems may be taken over by the state at a national level or even international level, as in the case of EMAS at the European Union level.

CONCLUDING COMMENTS

Constructive ideas about how to deal with environmental or other social issues may travel fast, slowly or not at all in a cultural landscape with actors guided by their ideological orientations. For some time the ideology of neo-liberalism has been dominant and behind it the paradigm of neoclassical economics. In fact, ‘neoclassical economics a science and ideology’ with its emphasis on markets and the monetary dimension in many ways legitimizes neo-liberalism.

As economist, I cannot tell my readers about “correct ideology” (as neoclassical economists sometimes do when they recommend and apply CBA). I can however argue that there are alternatives in economics in terms of paradigm (with connected ideology) and try to illuminate the options available. Against this background, I have tried to outline one alternative to neoclassical theory as part of a perspective of paradigm coexistence.

Climate change, biological diversity and other development issues are very complex in terms of limitations to our knowledge and uncertainty which calls for a modest attitude. Some ecological economists argue even that we need a “post-normal science” to deal with these issues (Funtowicz and Ravetz, 1991). While not excluding instruments within the scope of the present political economic system, my point is that we should also begin to seriously discuss alternatives at the levels of paradigm in economics and ideological orientation. Changes in incentive systems (which are generally recommended by neoclassical economists) can be a way of making things happen. But even behind such changes in incentives are ideas of a paradigmatic and/or ideological kind. Economists therefore have to open the door for a broadened research and educational agenda in relation to climate change and other issues.

REFERENCES


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i For a more comprehensive view of these concepts see Söderbaum 2000 or 2008.

ii This emphasis on “paradigm coexistence” is still compatible with “shift in dominant paradigm”. At some stage the neoclassical paradigm may be in a minority position in relation to sustainability issues for example.