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On the Theoretical and Practical Consistency of Neoclassicism as a Theoretical Platform of Economic Disciplines

Abstract

The article discusses the scientific and practical validity of the neoclassical theory, which forms the basis of training courses in economic theory and institutional economics in accordance with the current Educational Standards of the Russian Federation. Critical analysis of the “supply economy” theory that emerged in line with neoclassicism as well as of the new institutional theory that absorbed practically all of neoclassical methodological principles is given. Neo-institutional interpretations of the basic economic categories are considered.

Keywords: neoclassicism, theory of “supply economy”, neo-institutionalism, scientific and practical consistency, property, ideological mission

Introduction

At present, there is no doubt that it is necessary to form and build up the nation’s intellectual potential for the implementation of innovative development option. Essential and significant for this process is to ensure the proper quality of economic education.

Unfortunately, over the years of reforming, the level of training of economic personnel has decreased in the Russian Federation, which is noted in a number of publications, whose authors state the general weakness of intellectual and qualification training of company employees (Blinov & Rudakova, 2013; Daskovsky & Kiselev, 2013).

In domestic educational literature on economic theory prevail interpretations within neoclassical direction, and therefore it is appropriate to cite the estimates of scientific and practical justifiability of neoclassicism as a theoretical platform for training courses and economic policy by well-known foreign economists, public figures and economic organizations.

In one of the latest reports of the National Bureau of Economic Research (USA) on the program “The Role of Economic Policy in Macroeconomic Theory” it is noted that empirical studies of the late 1990s using the macroeconomic data of industrialized countries raised serious doubts about the ability of neoclassical growth models to give a satisfactory explanation for aggregate fluctuations in the economy (Schmitt-Grohe & Uribe, 2005).

In October 2010 the cinemas of New York started demonstrating a documentary film by the famous American film director Charles Ferguson on the role of economists-administrators and economists-scientists in shaping the preconditions of the economic crisis that shocked the US and the world. The author of the film interviews the leading figures of the economic block in the US government, famous

US economists, visits various countries suffering from the crisis, and comes to the conclusion that both the official system and the initial theoretical constructions are vicious (The New York Times, 2010).

Criticizing neoclassical theory on the whole as a dominant part of the post-war mainstream, Douglass North in his Nobel lecture (December 9, 1993) claimed that this theory is an inappropriate means for analyzing policies and making recommendations that stimulate economic growth and development (World economic thought. Through the prism of centuries, 2004a, pp. 707-708).

Results and discussion

The abovementioned authoritative critical remarks on the neoclassical theory would be continued as follows.

In the second half of the XX century, the theory of “supply economy” was introduced in the neoclassical direction; its authors were American economists. Not being a coherent scientific concept, the theory of “supply economy” is a set of recommendations in the field of economic policy, namely, it suggests reducing the tax burden of organizations and state budget expenditures (improving the budget), and privatizing state enterprises.

The list of measures is painfully familiar: these very measures were implemented by the reformation Government of the Russian Federation in the 90s of the 20th century and continue to be embodied into Russia’s economic policy at present.

In fairness, it should be noted that this theory was put into the basis of the economic policies of R. Reagan (USA) and M. Thatcher (Great Britain) in the 80s of the 20th century, but after that these countries moved rather quickly to a more flexible and efficient economic policy.

In fact, general recommendation to reduce the tax burden is a too abstract approach. It is known that really competent and effective tax policy provides different tax rates and methods of their construction for different types of tax payments. In addition, tax rates are also differentiated depending on the categories of taxpayers, the branch belonging of economic entities in order to equalize the profitability of economic activities in different sectors of national economy, or, conversely, its differentiation, taking into account the goals and priorities of current and prospective economic policy of the state. It is demonstrated by the economic practice of any modern developed country, including the USA. Reduction of the state budget expenditures recommended by the theory of “supply economy” runs counter to the budgetary policy of modern developed, for example, European countries, where the state’s consistently high budgetary expenditures do not turn into a stopper, as the theory in question suggests, but a generator of economic growth.

There are many eloquent publications about destructive consequences of mass privatization for national economies of the former union republics that was held on the post-Soviet territory (Kulikov, p. 4). Therefore, the abovementioned estimates by leading Western economists about scientific and practical inconsistency of neoclassical theory seem natural.

However, it is no coincidence that modern American economist R. Heilbroner, an honorary professor of economics at the New School of Social Research in New York, meaning by modern economics, in fact, a neoclassical direction (as

understood from the context – author) points at the distraction from the analysis of the system of production relations as its significant defect:

It is not surprising that the scientific school, considering the economic system in isolation from these motives (from the analysis of production relations-the author), raises the theory of choice (in the situation of limited resources – the author) to the commanding height and proclaims the desire for the general equilibrium by its immanent tendency. It is here that the economy discovers its fatal infirmity as a pretender to universal science and its fraud as an imperial doctrine. (World economic thought. Through the prism of centuries, 2004b, pp. 400-401)

Thanks to the efforts of modern American economists, many of whom have become Nobel laureates in the last 10 years, a new direction of economic science – neo-institutionalism – appeared by the end of the last century.

As it is noted in the article by A. G. Hudokormov:

The latest trend of the world economic thought – neo-institutionalism – has gained universal recognition by the end of the last century and is gradually included as an integral part of the main core (mainstream) into the Western economic theory.

Neo-institutionalism has seriously changed the mainstream content by introducing fundamentally new categories into its composition: transaction costs, property rights, opportunistic behavior, contract network, etc. (Hudokormov, 2007, p. 58)

Quite recently the course “Institutional Economics”, outlining the ideas of neo-institutionalism, was introduced to Russian universities as a mandatory discipline for students of economic specialties. As it is claimed, neo-institutionalism is a kind of symbiosis between neoclassical theory and American classical institutionalism. “Neo-institutionalism, in its constructions, either explicitly or implicitly proceeds from the prerequisites characteristic for the neoclassical theory” (Agapova, 2009, p. 99).

Acquaintance with the main topics of the “Institutional Economics” left the following impression. In fact, when using new terminology, the basic postulates of neoclassicism are re-declared: adherence to the idea of economic freedom; minimal state participation in the economic life of the society; the principle of methodological individualism; consideration of the market as the best way to organize economic activity; rationality of economic behavior of individuals, however, not absolute, but limited.

It seems that fairy tales have more relevance to the modern economic reality than neo-institutional model of pure market economy with the completeness of information and zero transaction costs, optimal allocation of resources and maximum social welfare due to private property.

The rational link of the American classical institutionalism by T. Veblen, consonant with the position of the economists of German historical school – consideration of socioeconomic factors in unity and development for the objective and productive exposition of the laws and tendencies of social development – is largely lost in the new course. It is replaced by the texts, tendentially illuminating certain phenomena of society’s social and economic life.

It is striking, for example, to describe individuals’ labor behavior, for some reason peremptorily assuming opportunistic character, that is, unfair behavior, abuse of official position to the detriment of enterprise and collective’s interests.

Why should it be so humiliating for people and, in particular, for hired labor?

It would be interesting to know if the content of the course “Institutional Economics” identical in Russia and the US, for example? And what is thought about the description of labor behavior given in the Russian textbooks of “Institutional Economics”, for example, by the Japanese with their system of lifelong hiring and exemplary corporate culture?

It is also necessary to remember about the educational component of the educational process. If the representatives of academic science from the pages of textbooks authoritatively talk about the opportunistic behavior of company employees as a norm of economic behavior (rather than a deviation from the norm, which would be appropriate and understandable), then only a certain stereotype of thinking and behavior of the forming personality can be seen as its result.

Also alarming is the interpretation by neo-institutionalism theorists of the basic economic categories, for example, property.

In the implementation of the predominantly legal aspect of analysis in the theory of property rights “the questions studied are not so much about the origin of the institution of property... yet about comparative effectiveness of one or another type of property rights” (Agapova, 2009, p. 66). This affirms the immutable advantage of private property over other forms of ownership.

Considering private property as an ideal, the representatives of the neo-institutional theory see the justification (permissibility) of the existence of other types of property in the impossibility (due to high costs) to provide exclusive rights to the resources of some individuals, thus treating both state and common property as an inevitable evil. (Agapova, 2009, p. 98)

Further on, the author of this quotation gives an amazing, magnificent text explaining the actual place of different forms of ownership in the economic system:

The most important assumptions in protecting private property are that all the costs and benefits of decision-making are borne by the individual ... Obviously, it is not always followed in the real economy, therefore, the process of limiting private property, or restrictions on the abuse of private property, also receives a significant spread in the regime of private ownership. This may mean recognizing that the institution of private property does not provide economic and social optimum and needs limitations on the part of the state as a political institution. (Agapova, 2009, p. 87)

The critics of communal property completely ignore the fact that for a very long period the predominant form of people's interaction was joint activity, which corresponds to the institution of communal property...

The relations of communal and collective property being embodied in the institutions of use, possession and disposal of property as well as interpersonal relationships (including family and marriage), sprouted through all stages of person's life and determined his/her spiritual mood. And not indifference, but sympathetic attention to others, not individualism, but adaptation to the needs of the organization, not rivalry, but close and constant cooperation are the main characteristics that accompany communal (collective) property...

This property system, accompanied by the orientation of production to direct consumption, did not entail predatory use of resources. Paradoxically, this phenomenon is typical for the system of private property which is the basis of modern market economy...

It is generally accepted that modern organization of consumer demand leads to ultra-fast moral obsolescence of products. Speaking figuratively, the inevitable consequence of this process is the accelerated processing of initial resources into the streams of annoying things, becoming waste of life. (Agapova, 2009, pp. 94-95)

In the context of the discussed issue it is interesting to cite the so-called “Posner’s maxim”:

Legal rules should “imitate the market”, or, in other words, help to establish such distribution of property rights that the market would achieve in the absence of transaction costs and economic agents would reach themselves if not the positive costs of transactions. (Agapova, 2009, pp. 81-82)

What is it? Dreams of a “pocket” state that does not prevent legalization of real arrangement of economic power between oligarchic groups?

Further. The so-called “naïve” theory of the emergence of property rights suggested by neo-institutionalists is by no means naïve.

In arguments, the advantage of private ownership of resources is almost categorically affirmed, “elbow work” is approved for the purpose of priority capture of resources, “such characteristics of the individual as egoism and utilitarianism are presumed” (Agapova, 2009, p. 100), i.e. a certain stereotype of economic thinking and behavior is gradually being introduced into public consciousness.

The content and ideological implications of the reasoning on this issue once again testify about the unity of the initial positions of neoclassicism and neo-institutionalism.

Once again, it should be emphasized that in all theoretical constructions of the neo-institutional theory, the role of the state in the social and economic life of modern society is distorted and depreciated.

It seems, therefore, that in recent decades, in the works of modern neo-classicism and neo-institutionalism representatives who are predominantly American economists, there is no search for an abstract truth that has been cleared of ideological underpinnings (which was proclaimed at the time of the formation of neo-classical direction in the late 19th century), but on the contrary, they demonstrate a far-sighted ideological move aimed at replacing real scientific and economic knowledge as a basis for practical activity with far from reality pseudo-scientific schemes lobbying a certain set of statements that have some relation to individual socioeconomic phenomena of public life, but in no way are a well-composed economic concept that could serve a basis for the proposal of efficient social and economic state policy measures.

It can be assumed that both neoclassical theory and institutional economics (neo-institutionalism) are called upon fulfilling an important ideological mission: to form a certain type of economic thinking and behavior on the territories of the countries where this material will be accepted as the content of basic economic courses.

As A. G. Hudokormov rightly noted:

Leadership in the Nobel Prizes in economics, among other things, necessarily includes a moment of national and ideological influence... In essence, this is another manifestation of the soft power that alongside with the “forces” of a different kind determines the dominance of the United States in the modern world. (Hudokormov, 2007, p. 55)

Conclusion

It seems that modern domestic theoretical economic educational courses should be substantially reworked, cleared of pseudoscientific constructions distracting students from the scientifically sound and practice-oriented knowledge.

Recognizing the positive experience of developed countries and recent own experience of teaching quality economic theoretical knowledge, it is necessary to take the teaching of the classical school of political economy in its most scientific Marxist version, supplemented subsequently and further creatively developed by the outstanding representatives of Russian and Soviet economic science as a foundation for basic courses in economic theory.

When discussing the directions of the economic policy of the modern state useful and meaningful also seem the ideas expressed in the framework of German historical school on the development directions of the productive forces of the nation; American classical institutionalism of the early twentieth century; instruments of state regulation for socio-economic processes at the level of national economies; Keynesian economic theory in relation to substantiating the need and direction of state regulation at the present stage of society's socio-economic development; German ordoliberalism as a theoretical platform for economic policy of "social market economy" by L. Erhard.

Moreover, the listed theories and directions of economic thought do not look like theories that are alternative to Marxism, but are consistent with Marxist political economy, being the development of its separate provisions, namely, the question on the role and functions of the state in the evolution of the economic system.

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