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Politics Of Economics As Discipline And Discourse Of Knowledge Validation

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Abstract-

Modern economics has become a source of justification of the present leading elites. Reason is that presently economics as a discipline has been monopolised by a particular narrative. Its basic assumptions are not tested and mathematical tools are used to justify the logical results of the fundamental assumptions. Economics like any other discipline is embedded in the different discourses related to the complete understanding of economic behaviour of human society. Present understanding of economics has been the result of a long process of evolution and this evolution need not to be understood as linear in nature. Discourse is inherently political in nature because it differentiates between the truth and falsehood , rather it determines what will be valid facts and what are not. This arbitrary nature of the disciple and discourses within it gives economics like any other discipline inherently political propensities.

Introduction-

Modern economics has become a source of justification of the present leading elites. Reason is that presently economics as a discipline has been monopolised by a particular narrative. Its basic assumptions are not tested and mathematical tools are used to justify the logical results of the fundamental assumptions. Thomas Mayer said in his book ***Truth versus Precision in Economics*** the main division of highly formalized theory and empirical science based theory. This formalised theory develops generalization and axiomatic understanding about the discipline. Empirical science mainly focuses on collective understanding of past data and making a prediction of the future on the basis of it.Thomas Mayer asserts that presently dominant training mode of economists is to give more priority to the formalism and mathematical posturing at the cost of empirical understanding of economic facts. This has made economics dominated by the precision camp in which mathematically sound economists create difficult mathematical models which most of the time have no relation with the real economic world. Mayers assert that these mathematical models cannot be tested empirically because there is serious limitation of data collection and there is the tendency of misuse of empirical devices too. Mayer asserts that empirically oriented economists also feel compelled to pretend that their data confirm mathematical models even at times does not confirm that.[1] Thomas Mayers asserts that the last forty-years there has evolved such a set of norms and values that has defined the criterion of what is economic scientific validity which has coincided with the dominance of formalistic theory.This has led to the

[1] Thomas Mayer, Truth versus Precision in Economics ,Cambridge University Press 2008

oppression and isolation of someone who is outside of this established mainstream and this also hampers the real growth of the discipline of economics.

Rise of Macroeconomics -

Macroeconomics as a discipline was developed after the second world war which will provide proper understanding of the economy as a collective entity and will provide tools to guide and boost its functions. Depression of 1929 and subsequent contribution of John Maynard Keynes has provided the foundation for this new discipline , which essentially stressed on giving fiscal stimulus to the government and deficit financing by way of the Central Bank. Keynes proved that the great depression was the result of a liquidity trap and such a situation cannot be tackled by simply reducing the interest rate by the central bank. This will require a twin strategy of increasing the government spending and at the same time reducing the tax burden on the business , which effectively leaves only one option of printing money at the hands of the government. This was thought to be the only possible method of reducing high levels of unemployment. This gave birth to the growth of macroeconomics which imbibed the ideas of John Maynard Keynes to manage the economy at the macro-level with the combination of monetary and fiscal policies. Gradually this new consensus became the very basis of modern economics education at university and graduate level.[2]

Economics and Physics -

Paul Krugman, who is a Nobel laureate, has stressed that the economics profession has lost its direction because economists have been fascinated with the idea of creating mathematical models for searching the economic truth.[3] Kaldor in his paper, "The Irrelevance of Equilibrium Economics"1972 equilibrium is rooted in mechanics and is unsuited to the investigation of economic systems. Equilibrium economics according to Kaldor has become one of the main obstacles in the evolution of economics as science. Science Kaldor assert is a body of theorems based on assumptions which are empirically derived and which embody hypotheses that should be capable of verification both in regard to the assumptions and the prediction. General economic equilibrium theory developed by Walras and finally perfected by Gerard Debreu.Debreu assert that general theory of equilibrium is logical in nature and cannot be taken as scientific in the sense of empirical verification. Debreu tried to develop general equilibrium as minimum basic assumptions necessary for establishing the existence of an equilibrium set of prices that is stable , unique and satisfies the condition of Pareto optimality. The whole progress of mathematical economics has gradually made the axioms of general equilibrium far more stringent than the one developed by the Walras and Debreu. This general equilibrium theory is gaining ground due to the rational expectation hypothesis which has imbibed the faith that the prices provide the guide to all economic action and its main assumption that free markets secure the best result. Kaldor quotes prof Hahn asserts that general equilibrium relies on more and more stringent conditionalities to secure claimed goals. Kaldor even challenged the role of price mechanism by claiming that Walras knew only about two categories of agents, producers and consumers. Kaldor asserts that there is the third category which is vital to the functioning of any market economy which is called the dealer or middleman who is neither buyer or seller because he performs both of these functions simultaneously. Kaldor points out that middlemen or merchants are the one who make t**he market** which enables producers to sell and consumers to buy. These traders carry stocks of goods in large enough amounts to tide any discrepancies between seller and buys. They indulge in auctioneering because they quote prices for the sale and purchase of goods in large quantities. They are not bound by any law to buy and sell only at equilibrium prices.[4]

[2] Andrew Smithers, How Economic Theory Went Wrong, American Affairs Journal, Spring 2024/ Volume VIII, Number 1.

[3] Paul Krugman, "How Did Economists Get It So Wrong?," New York Times, September 2, 2009).

[4] Nicholas Kaldor, Economics without Equilibrium , Routledge ,New York 2019. .

Kaldor challenged the validity of the price-taking assumption of general equilibrium theory which is the very basis of modern mathematically embedded economics. Kaldor argues that markets do not solely rely on prices; rather markets are dependent on the inventory adjustment by the traders and changes in the production process of the firms. Kaldor points out that gradually the control of producers over the prices of a commodity has increased because of factors like advertisement and brand loyalty which really insulate producers from the competitive forces to a large extent. Kaldor asserts that firms usually do not change the prices frequently in response to changes in the demand because they want to retain their goodwill in the eyes of customers. Therefore he asserts that there are serious reservations on the competitive equilibrium theory in the present context while understanding the functioning of the markets.

Reliance on Algebra and Aprioristic Assumptions-

Neo -Classical economics relies on algebra which gives it an aura of scientificism. [5] Algebra is one of the most perfect instruments to give any model a validation of its self-consistency and therefore it is helpful in any rational inquiry. Paul Krugman has pointed out that such mathematical reasoning which validates assumptions and conclusions of any model does not validate the correctness of the assumption upon which a model is constructed. In science nothing is ever proved and scientific knowledge works within the models. In any given time the most dominant or popular model is the best possible model which approximates to reality. Truly scientific models are those which make their foundational assumptions open for testing in the light of empirical data. This should be the case in the context of economics too. [6] Presently economics as a discipline has been dominated by the aprioristic models which are based on untested assumptions or assumptions which are not empirically tested for their scientific validation. Therefore testing a model on the basis of its basic assumptions and conclusion derived from them cannot bestow the status of being scientific because it will require testing of the foundational assumptions of the model too.

Neglect of the Household Sector by Economics-

Professor Robin Marris has questioned the present dominant division of the economy into three sectors like government , private and foreign while neglecting the household sector or family as a unit of economy. He asserts that the neoclassical model of economics has the assumption that the managerial classes who are running corporations will behave as if they are the real owner of that company. His work asserts that it is essential to bifurcate the private sector into two sectors: the family (household) sector and business sector. Neo-classical economics and economics in general has not understood the difference in the decision-making process of the business and the household sectors. Decision makers have different utility functions in economic terms. Robin Marries reached the conclusion from his studies of " managerial capitalism" that the corporate directors have the capacity to subject their companies to their own utility functions.[7] This difference is accepted at the time of national accounting when data collection is divided into businesses and households. Presently consensus models in economics dont realise that the business and household sector should be seen as one. Therefore both sectors should not be dealt with the same policies in the context of investment, landing, subsidy and bankruptcy. The neo-classical economics assumes that shareholders are more concerned with the value of their company's balance sheet's net worth than with their share prices.

[5] Ricardo Caballero, "Macroeconomics after the Crisis," Journal of Economic Perspectives 24, no. 4 (2010): 85–102.

[6] Andrew Smithers, How Economic Theory Went Wrong, American Affairs Journal, Spring 2024/ Volume VIII, Number 1

[7] 6 Robin Marris, The Economic Theory of "Managerial Capitalism" (New York: Macmillan, 1964).

Stabilising the Unstable Economy -

Hyman Minsky wrote at a time when monetarism has overshadowed Keynesianism in late 1970s and 1980s. Econometrics and statistical models became the very basis of economics and financial analysis of that time. Minsky recognized the serious limitations of the mathematical equations, the structural changes in an economy and in understanding the behaviour patterns of individuals (groups) economics and finance. Henry Kaufman writes that Hyman Minsky's insights help us in understanding growth of new financial speculation and its implications on the capitalistic economy in the late twentieth and 21st century. Minsky gives great insight into the nature of speculative corporate financing in the market economies and how debt quality deteriorates within a market economy. Minsky asserts that these twin characteristics of modern capitalistic economies are the reason for the volatile nature of any economy. He coined the term "speculative finance" for corporate borrowing for the repayment of their debt within the market economies and also pointed out its implications on real economies in terms of increasing the level of investment and asset prices. This increase in the investment creates bullish sentiment in employment, investment and profits . This phenomenon is also reflected in the behaviour of bankers, industrialists and businessmen and this gives birth to "balance-sheet adventuring"which we have witnessed in all the recent financial crises like the 2009 crisis .His work illustrates how the process of rapid securitization of financial assets has led to exponential growth of debt as compared to increase in the nominal gross national product all over the world. Globalization of financial markets coupled with digitization of finance has further exacerbated this situation. Now risk has been quantified within the markets and regulators have failed consistently over the years to set a fine balance between the entrepreneurial drive and mere ask of financial profiteering.[8]

Money as abstract medium of Measuring Value vs Money as Economic Good-

Mises asserts that money is the source of transmission of value but money cannot be the measure of the value of things because the value of money in itself fluctuates due to inflation and demand of commodities. Mises points out that it is a mistake to think of money as an abstract medium of measuring value. Money according to Mises is an economic good and it's worth is determined by its own merit which it can provide to its holders. Markets being driven by fluctuating demands of goods and their supplies are inherently unstable and this is the reason which increases the need for money.[9] Mises has given a seminal insight that the most marketable commodity or goods gradually become the medium of exchange. Money according to Mises is the most marketable commodity because people want to acquire money for their later acts of market exchanges.[10] Second function of money is to facilitate credit transactions which according to Mises is nothing but the exchange of present goods against future goods. [11] According to Mises money does not measure value because values are subjective and ordinal in nature which cannot be defined by money. Therefore it's impossible to quantify the subjective value on the basis of objective measures. Money is a good medium of transmitting value and humans indulge in this exchange due to the uncertainty of the future according to Mises. This exchange of values lies at the heart of any human economic activity and money is the best facilitator in this task.Mises assert that action of exchange is exchange of conditions in favour of the one which is more satisfactory to both the parties.

[8] Hyman P. Minsky ,Stabilizing An Unstable Economy, Yale University Press, 1986.

[9] Ludwig von Mises,Human Action:A Treatise on Economics ,Yale University Press, 1949. ,pp.414-15

[10] Ludwig von Mises, Human Action: A Treatise on Economics , Yale University Press, 1949.,pp.398.

[11] Ludwig von Mises , Theory of Money and Credit, Yale University Press, 1954 p .35

Role Central Banking and rise of Credit Money-

Misses assert that modern banking and civil governments have defiled the commodity character of money and reduced it to the status of "a promise to pay." Central banking with the legal backing has created a fiat & fiduciary money as a medium of exchange in modern economies .It is a promise that cannot be fulfilled at the same time to everyone who has been issued fiduciary media. Modern central banking has allowed the spread of what Mises defined as the "credit money", this being that sort of money which constitutes a claim against any physical or legal person. Mises assert that such credit money generates claims which cannot be payable on demand and will not be absolutely secure from any breach.[12] This insecurity of such claims in a "credit money" system allows bankers ,government and other institutions to value such "credit money independently" without hedging its value against any metal (gold). This has given a lot of unaccountable powers in the hands of modern governments , banks and corporations which are undemocratic and exploitative in nature. Mises assert that the entire central banking system under the aegis state keeps all the claims generated against " the credit money" postponed for the future which inevitably will lead to financial crisis.

Mises has challenged the concept of money as a creation of law and the State, because it goes against the principles of money using society. Whenever the government has tried to control the prices of precious metals like gold, regulate the value of money, Gresham's law takes over. This clearly illustrates that money is a market generated phenomenon and the state's only rightful duty is to enforce the law of value. Presently mainstream economics and its study in universities has not given importance to the value of money and its nature.

Conclusion-

Economics like any other discipline is embedded in the different discourses related to the complete understanding of economic behaviour of human society. Present understanding of economics has been the result of a long process of evolution and this evolution need not to be understood as linear in nature. Discourse is inherently political in nature because it differentiates between the truth and falsehood , rather it determines what will be valid facts and what are not. This arbitrary nature of the disciple and discourses within it gives economics like any other discipline inherently political propensities. Therefore economics will have to revisit the different challenges which are questioning its validity and vitality. The biggest danger to the growth of any discipline comes from conformity and reluctance to face the critical question.

[12] Ludwig von Mises , Theory of Money and Credit , Yale University Press 1954, P61.