

From monopoly to pluralism

Peter Söderbaum

School of Sustainable Development of Society and Technology, Mälardalen University, Sweden

Mainstream neoclassical economics is just one among possibly relevant theoretical perspectives in economics. There are a number of competing perspectives referred to as social economics, ecological economics, feminist economics, institutional economics etc. They are similar in many ways, for example in their criticism of the neoclassical paradigm but also different. Among reasons behind this plurality, two will be mentioned here:

- It is hardly realistic to expect one economics to be the best for all purposes
- Scholars differ with respect to positions and ideological orientation

In my own case I regard neoclassical economics as insufficient in relation to environmental or sustainability issues. An ecological economics or 'economics for sustainable development' is needed. Neoclassical economists try to make us believe that there is only one 'true' economics at a time. A 'paradigm-shift' may happen in the future if the existing paradigm fails and it is shown that a new paradigm is performing better. My position is that we should think in terms of 'paradigm co-existence' instead. Competing theoretical perspectives should be encouraged as part of a pluralistic attitude.

Neoclassical economics is limited to positivism as a theory of science. The scholar is standing outside the economy, observing it in an alleged value-neutral way. This belief in a 'pure' or value-neutral economics is one of the main mistakes of neoclassical economists. Gunnar Myrdal among well-known economists – he even reluctantly accepted the so called Nobel Prize in economics – argued that "values are always with us" in economics and social science research. In my own terminology, neoclassical economics is science in some sense but at the same time ideology. Also the non-neoclassical theoretical perspectives mentioned are specific in ideological terms. Feminist economics, for example, is science but at the same time ideology. Typically feminist economists are concerned about the position of women in contemporary society, unpaid work etc.

We live in a democratic society and each one of us may like or not like the neoclassical ideology. Personally, I do not like this ideology and even think that it is dangerous or 'toxic' for society. Neoclassical economics has contributed to making neo-liberalism legitimate among politicians, business leaders and other actors in society. And neo-liberalism as market fundamentalism (with the kind of globalization that follows) is one of the main threats to contemporary society.

Neoclassical theory and method emphasizes the monetary dimension and one may hope that this theory successfully can handle financial issues. But the 'success' even in this part has been limited. I will however here emphasize issues of ecological sustainability. Is neoclassical economics with its extension 'neoclassical environmental economics' helpful and responding well to present needs?

As part of a pluralist philosophy, neoclassical economics can certainly provide us with some policy ideas for sustainable development. A market transaction may have negative impacts upon third parties, so called externalities, i.e. impacts upon other parties than buyer and seller. In this case, the 'polluter pays principle' should be applied or 'externalities internalized' into the market transaction. "Getting prices right" is the often repeated recommendation of the neoclassical environmental economist.

This may point in the right direction from a sustainability point of view. Environmental charges or Green taxes may be recommended and even sometimes implemented. But beware! Most neoclassical economists believe so much in the market mechanism, the 'invisible hand' and similar mysticism that they only reluctantly recommend regulation in the form of charges and taxes. And regulation of other kinds, often referred to as 'command-and-control', is more or less excluded from discussion. Understanding that environmental and other impacts upon third parties are ubiquitous rather than exceptional will make us realize that correcting for all externalities would bring us into a planned economy of the Soviet kind or something even worse.

It should here be observed that the "Getting Prices Right" recommendation is not an innocent thing. It is equal to "Getting Ideology Right". First neoclassical economics should be applied as the frame of reference; second the analyst is expected to be able to identify what the correct prices are among all possible prices. The fact that some impacts are irreversible is neglected. Putting an absolute price that is claimed to be correct for example on CO₂ emissions is highly questionable.

While neoclassical policy recommendations may point in the right direction from a sustainability point of view, they are hardly enough. Sustainable development (SD) is a contested concept in the sense that there are more interpretations than one. A radical interpretation may focus on non-degradation of the natural resource base in society as a way of taking future generations of human beings and non-human forms of life seriously. I will not go into detail here about renewable and non-renewable resources and policies in each case. My point is that a radical idea of SD (like each other interpretation of SD) represents a specific ideology that differs from the mentioned neoclassical ideology.

1. **Neoclassical theory** is built upon assumptions of self-interest and narrow ideas about the purpose of business. It can be argued that neoclassical economics has contributed significantly to make greediness legitimate. Neo-liberalism as a kind of market fundamentalism is not unrelated to, but rather based upon, the theory and ideology of neoclassical economics. **A sustainability ideology** on the other hand introduces ethics into decisions about 'allocation' of resources and the idea is that market actors should, in addition to their self-interests, try to broaden their horizons in terms of bothering about other human beings and about nature now and in the future.
2. **Neoclassical theory** emphasizes the monetary dimension, for example in its ideas about economic growth, profits in business and cost-benefit analysis (CBA) at the societal level. Everything can be transformed to its alleged monetary equivalent and all kinds of impacts can be traded against each other in monetary terms. The neoclassical strategy is one of reducing complex issues to their market and monetary aspect (so called 'monetary reductionism'). **From a sustainability point of view**, on the other hand, non-monetary factors and impacts are at the heart of the analysis and the neoclassical strategy is regarded as one Non-monetary impacts are considered important as such and non-reducible to one-dimensional calculation. Changes on the non-monetary side often follow a different logic in the sense that inertia, path-dependence and irreversibility are common phenomena. Exploitation of oil or minerals exemplifies such largely irreversible processes where environmental and social impacts follow.
3. **Neoclassical economics** is built upon efficiency concepts and ideas about rationality that are specific in ideological terms. It is assumed, for example, that monetary profits in business are an uncontroversial measure of efficiency. As an example it is believed that privatization of public activities will generally improve efficiency in society. **From a sustainability point of view**, efficiency becomes a matter of the observer's ideological

orientation, the alternatives that he or she perceives and expected impacts. A more open idea of efficiency is advocated.

My ambition is however not to “get ideology right” in a new way by pointing to a single, specific and ‘correct’ idea of SD. I certainly believe myself that a radical interpretation of sustainable development would be an important step forward and I am not alone in making the judgment that something new is needed. The UN with the Brundtland report (World Commission of Environment and Development 1987) as a first step, as well as national, regional and local commitments point in that direction.

The present ambition is instead to ‘democratize economics’ and open it for other theories with connected ideology than the neoclassical one. For this purpose we need a different ‘microeconomics’ where each individual is regarded as an actor guided by her ideological orientation. A ‘political-economic person’ is proposed as an alternative to Economic Man assumptions. Individuals are expected to differ with respect to ideological orientation an assumption that is compatible with a democratic society. The ideological orientation of one individual may vary across fields of activity. It may be complex in the sense that the individual experiences tensions between motives; it is normally fragmentary rather than complete and can seldom be reduced to a mathematical objective function to be optimized. The individual is furthermore a social being that experiences pressures from other individuals and groups to behave in specific ways. Responsibility and accountability in relation to other persons and society at large become potential issues.

Similarly, a political economic organization guided by a mission is proposed as alternative to the profit-maximizing firm. The market in turn is understood in terms of social relationships and networks between political-economic persons and political-economic organizations as actors. Each market actor may or may not emphasize self-interest or other narrow motives. The market can be seen as a mechanism facilitating exploitation of nature and human beings or be characterized by cooperation, trust and fairness. This is a matter to be investigated rather than assumed to be given and dictated by a certain model.

The economy is understood in broader terms than as market relationships between consumers and firms. Firms only represent a subset of all relevant organizations and political economic persons and organizations are embedded in the ecosphere and dependent upon natural resources and services from ecosystems.

Various aspects of such an institutional or ecological economics have been presented elsewhere (Söderbaum 2000, 2008). The previous discussion may be concluded as follows:

- Economics is not only science but at the same time ideology
- Monopoly for one paradigm such as the neoclassical one is not compatible with normal ideas of democracy
- The dominance of the neoclassical paradigm has made neo-liberalism legitimate and further strengthened the power positions of large transnational corporations, often at the expense of smaller firms
- Economics is just one among social sciences. Business management literature and organization theory is more open in relation to other disciplines but has at the same time to a large extent been influenced by neoclassical economics as theory and ideology. Traditional accounting practices in business, as an example, are no longer enough (Brown 2009)

Peter Söderbaum

- Professors of economics who over the years have protected the neoclassical monopoly should be held responsible and accountable. Advocating a specific ideology in the name of science can hardly be defended. To make economics compatible with democracy, pluralism with respect to theoretical perspectives and ideological orientations is recommended (Fullbrook 2008)
- Similarly institutions that primarily exist to protect the neoclassical paradigm, such as the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel should be reconsidered.

References

Brown, Judy, 2009. Democracy, sustainability and dialogic accounting technologies: Taking pluralism seriously, *Critical Perspectives on Accounting*, Vol. 20, pp. 313-342.

Fullbrook, Edward, ed. 2008. Pluralist economics. Zed Books, London.

Söderbaum, Peter, 2000. Ecological Economics. A Political Economics Approach to Environment and Development. Earthscan, London.

Söderbaum, Peter, 2008. Understanding Sustainability Economics. Towards Pluralism in Economics. Earthscan, London.

World Commission on Environment and Development, 1987. Our Common Future. Oxford University Press, Oxford.