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DEPARTMENT OF ECONOMICS WORKING PAPER SERIES

**The return of vulgar economics:  
A Rejoinder to Colander, Holt and Rosser**

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Working Paper No: 2011-14

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**The return of vulgar economics:  
A Rejoinder to Colander, Holt and Rosser**

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**Abstract**

This paper provides a rejoinder to Colander, Holt and Rosser (2010) strategy to win friends and influence mainstream economics. It is suggested that their strategy is counter-productive, and while it might gain them friends, it will not lead to increased influence of heterodox ideas within what they term the cutting edge of the profession. It is argued that their failure to understand the nature of heterodoxy, and the reason for the eclecticism of the mainstream, associated to the rise of vulgar economics, undermines their arguments.

**Keywords:** Methodology, Heterodox Economics

**JEL Classification:** B41, B59

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<sup>1</sup> The author would like to thank to Fred Lee, without implicating him, for conversations on the topic of the paper.

Colander, Holt and Rosser (2010) [CHR from now on] reply to my critique that their view that heterodox economists should not consider themselves just economists (i.e. should not try differentiate their product from the mainstream), and that methodological issues are irrelevant, by just repeating their argument. However, in their reply they also reveal something about their views of science and the meaning of the dominant marginalist (or neoclassical) paradigm, and about their view of heterodoxy. This paper argues that as a result of the lack of a correct understanding of the mainstream, and its relation to the cutting edge, and of heterodox economics, CHR arguments are severely damaged.

First, of all they suggest rather preposterously that I would argue that teaching neoclassical economics should not be done, and that some heterodox program actually does that. In their words: “our reading of Vernengo’s comment leads us to suspect that he would advise the students to study the heterodox writings, and go to a heterodox program—the mainstream work is so flawed that it does not make much sense to study it” (CHR, p. 398). Their reading is figment of their imagination, since nowhere in my paper there is such a statement. All heterodox graduate courses teach mainstream economics, and contrary to the authors, I am in a graduate heterodox program (and studied in two) and should know enough about the nature of these programs.

However, the reason for teaching mainstream theory is not because it provides a useful tool to analyze reality, which would be the only scientific criteria for doing so. There are two main reasons for studying mainstream neoclassical economics. First, to be able criticize one must be able to correctly understand. Second, mainstream economics serves as the basis for the radical conservative *laissez-faire* agenda.<sup>2</sup> Hence, policy discussions are to a great extent connected to mainstream views of the functioning of the economy.

And herein lays the problem with CHR. They plainly do not know the meaning of marginalism, and, as a result, their understanding of the mainstream and their heterodox critics is deeply flawed. First, they seem to suggest that the problems with the mainstream according to heterodox authors are the absence of true uncertainty, and the assumption of ergodicity. This is derived from my use of Davidson (1996). Davidson’s main point, however, is that the theoretical foundations used by heterodox authors are essentially different from the mainstream. In other words, assumptions matter. For example, either you accept Say’s Law and savings determines investment or one takes the principle of effective demand, and the opposite is true. Whether the complexity of the real world makes the assumption of ergodicity central to neoclassical economics is irrelevant to my

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<sup>2</sup> The sorts of moderate reform programs of Social Democracy, or Socialism, the more heavy handed planning approach of Soviet Communism and the interventionist policies of the developmental States in the developing countries, are ultimately based on a heterodox understanding of the limitations of market economies.

argument.

Being able to incorporate complexity and being eclectic does not make the cutting edge heterodox in their theoretical framework or ideas. Yet CHR (p. 399) insist that for them: the “cutting-edge mainstream critics of the mainstream [sic] as heterodox in ideas, but mainstream in name and sociological setting.” Further, they believe that: “modern mainstream economics includes such a wide range of approaches and views that the term neoclassical is no longer useful as a description of much of the mainstream. We see Rodrik as quite eclectic in his views and very open about it” (CHR, p. 403). In other words, the cutting edge is part of the mainstream just in name, and, in fact, there is no dominant mainstream, but a *potpourri* of mainstream views.

One could argue that what CHR refer to as the eclecticism of the economic profession, and that Roncaglia (2005) more appropriately refers to as the age of fragmentation, is the result of the mainstream’s defeat – admitted by Samuelson (1966) – in the capital debates. The capital debates showed that the inverse relation between capital (or labor for that matter) intensity and its remuneration (the interest rate for capital and the real wage for labor) is not generally valid. The very core idea that all prices, including the price for capital and labor, are determined by supply and demand (relative scarcities) falls apart.<sup>3</sup>

Note that the capital debates have important implications for macroeconomics as well (Camara and Vernengo, 2010). If there is no inverse relation between investment and the rate of interest, there is no interest rate sufficiently low that would bring investment to the level at which full employment savings are generated. In other words, there is no natural rate of interest, as Keynes suggested (and no natural rate of unemployment, as Friedman argued, too), and the system is demand driven not just in the short-term, but also in the long-term. Hence, the heterodoxy is not about realistic ideas about economic policy, as CHR seem to be believe, but about a coherent theoretical framework to understand reality, one in which prices are not determined by relative scarcities, and the level of activity and growth are demand determined.

It is in the context of this theoretical failure, and the fact that General Equilibrium was a sterile research program, that could not even provide good solutions for the problems of uniqueness and stability (Ingrao and Israel, 1990), and in the middle of the demise of Keynesian economic policies and the rise of the conservative revolution in the 1970s, that economics became more eclectic. However, the eclecticism should not be confused either with pluralism, meaning the acceptance of alternative views, nor with heterodoxy. The mainstream is eclectic, but not pluralistic, meaning open to alternative approaches.

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<sup>3</sup> An alternative based on the post-Keynesian tradition of full cost pricing shows that supply and demand affect only market prices, but not the long-term prices which are based solely on costs of production. For a more detailed discussion see Camara and Vernengo (2010).

In fact, it is in the late 1960s early 1970s that heterodox economists were kicked out of the profession, so to speak, and have to create their own organizations (the Union for Radical Political Economics, for example) and their own journals (e.g. *Journal of Post Keynesian Economics*, and *Cambridge Journal of Economics*) and their segregated graduate programs.

Arguably, the mainstream became more sectarian, and certain of the infallibility of market solutions, exactly when their theory floundered. The theoretical crisis caused by the capital debates led to the rise of what may be termed the new or the return of vulgar economics. Similarly to the period from the mid to the late 19<sup>th</sup> century – when the crisis of the classical approach, and the Marxist critiques, lead to the development of marginalism – now we have a defense of market efficiency, even though the foundations of their position have been completely undermined.

The rise of neoliberalism and the demise of Keynesian economics took place as the theoretical foundations of marginalism were shaken by the capital debates. A fundamentalist reaction to defeat that created a peculiar dichotomy in the profession. As I noted before the relation between what CHR call the cutting edge and the mainstream is symbiotic. The cutting edge requires the mainstream to obtain respectability.

Here again they confuse my argument; they say:

“We do, however, fully agree with Vernengo that Rodrik, and most mainstream critics of the profession, including many who were formerly considered heterodox, are hesitant to classify themselves as heterodox, and that many strongly state that they are not heterodox. The question this should raise among heterodox economists is: why that is so? In our view, it is not because these inside mainstream critics of the profession are scared of taking strong stands, of attacking strongly held beliefs in the mainstream, or of pointing out what they see as problems in the mainstream views. *The reason is heterodox economists’ poor reputation within the mainstream profession*” (CHR, p. 403).

I did not say that Rodrik hesitates to be seen as heterodox (and I cannot see how we agree on something I never said). I said that he is afraid not to be seen as neoclassical, because the price of exclusion is too high. What they are is scared of taking positions on a whole lot of issues, from the theoretically relevant to the policy ones. Here is a quote from Paul Krugman, who on many levels is not afraid to speak his mind. He says:

“By the early 1980s it was already common knowledge among people I hung out with that the only way to get non-crazy macroeconomics published was to wrap sensible assumptions about output and employment in something else, something that involved rational expectations and intertemporal stuff

and made the paper respectable. And yes, that was conscious knowledge, which shaped the kinds of papers we wrote. So you could do exchange rate models that actually had realistic assumptions about prices and employment, but put the focus on rational expectations in the currency market, so that people really didn't notice. Or you could model optimal investment choices, with the underlying framework fairly Keynesian, but hidden in the background. And so on."

So, basically, the whole idea was that they would publish things that were reasonable in crazy models, in order not to be ostracized. That is truly courageous! And by the way, the reputation of heterodox economists is low exactly because they are willing to say things that the mainstream does not want to hear. Speaking truth to authority, on the other hand, is not friendly enough, CHR suggest.

For example, Jane D'Arista, Paul Davidson and Jamie Galbraith, to name three heterodox economists, that saw the recent global crisis coming when most mainstream economists did not and were against financial deregulation, have less political and academic space, and very likely lesser financial rewards, than Larry Summers (as Treasury Secretary he promoted deregulation, and I assume we can agree that Harvard conveys authority). Incredibly, Summers is seen as a Keynesian (perhaps even cutting edge) by many in the profession. Are we to believe that Larry Summers theories or policy expertise are behind that advantage he has over the three heterodox economists cited? The problem with CHR is that they presume that the lack of reputation of heterodox economists must imply that they are somehow less qualified. They blame the heterodox for their ostracism in the profession. Blaming the victim is a typical strategy of the powerful.

As I noted before, the mainstream is there to say that markets work, and the cutting edge just makes them more realistic, when it turns out that markets do not work as their theories suggest they should. They are the Krugman like economists willing to wrap reasonable ideas with crazy models to sound sensible, but afraid to be kicked out. CHR (p. 399) say that: "what Vernengo calls organized hypocrisy, we see as wisdom of knowing when to attack and when not." What I call organized hypocrisy is the symbiotic relation by which the mainstream tries to be respectable while trying to sound realistic and reasonable. There is no wisdom in wrapping reasonable ideas with crazy models. This is the very definition of hypocrisy, namely: pretending to have beliefs one does not actually hold true.

More importantly their view that heterodox economic ideas develop in a sort of game in which one attacks or not the mainstream is revealing of the degree of confusion about what economists (heterodox or not) should be doing. They seem to argue for a strategy based on how to do well in the profession. They say: "but initially we believe an effective critic works from within" (CHR, p. 399). This is not about how to be an effective critic, but how to effectively understand the behavior of real economies. It seems that CHR want to be accepted by the profession (the cutting edge, not the mainstream, I would guess) rather than understand how the

economy works.

Further, they say (CHR: p. 404) that: “Vernengo’s paper conveys that hostile tone about the mainstream that the mainstream associates with heterodoxy. If, in the beginning of one’s discussion with people, one emphasizes their personal hypocrisy, their prejudices, and their lack of tolerance, one is unlikely to enter into fruitful conversation with them, even if they agree with one on many of the points one raises.” It must be clear that I did not mean, and did not say, that any particular economists are hypocritical, even though several certainly are, and not just mainstream and cutting edge economists.

Organized hypocrisy is an institutional phenomenon, and a part of the way the profession behaves. What CHR perceive as anger is my critique of the duplicitous behavior of the profession. I might be wrong, but the evidence suggests to me that this is what is going on. I am considered angry because I do say something that does not sound friendly, meaning I am critical. In all fairness, it is the mainstream economists that, when confronted with the serious critiques of their principles, feel that their authority has been undermined. The mainstream is angry, not the heterodox critics. For example, Glenn Hubbard gets worked up, in his interview in *Inside Job*, when asked about the conflicts of interest of saying things that favor groups that actually pay his consultancy fees. How dare people confront him! Heterodox economists have no authority and are seldom angry, and as far as I can tell, they are not bitter either. But that does not mean heterodox economists should not point out that mainstream theories are flawed just to avoid inconveniencing them and risking losing potential friends.

That is why they are again wrong when they say that: “Rodrik, and other inside-the-mainstream critics, want to separate themselves from that heterodox tone and attitude, not necessarily from heterodox ideas” (CHR, p. 404). Rodrik does not understand that prices are not determined by relative scarcities, and that output is demand driven in the long run, to cite a few heterodox tenets. A cursory reading of his papers shows that he does believe in a version of the neoclassical theory of growth, for example. He just tries to make it more relevant, by bringing to a lower level of abstraction in which institutional factors matter. Only somebody that does not understand the meaning of heterodoxy would confuse him as heterodox.

More problematic even is CHR definition of Hyman Minsky as a cutting edge mainstream economist. This is disingenuous at best. Minsky did believe that Keynes’ theory was not about short-run imperfections, and did believe accordingly in the principle of effective demand in the long-run. And that is a hallmark of heterodoxy. Also, he argued that:

“If I had my way *the standard American course in economics would be eliminated* and economics would be introduced in the context of social sciences and history. The current American way of teaching economics leads to American economists who are well trained but poorly educated” (Minsky,



2009, p. 194; italics added).

Minsky thought so much of the mainstream (standard course) that he would eliminate the course! Minsky may have been guarded about being seen as part of a particular heterodox group, not because he was cutting edge mainstream, but because he was too original to be boxed in a particular label.

Finally, CHR return to the question of communication with the mainstream, but do not address my question of why that should be a priority of heterodox economists. They do not seem to know what is to be gained, beyond being accepted. They believe that “heterodox economists can better communicate with mainstream economists if they give the mainstream the benefit of the doubt and interpret their work sympathetically, rather than portraying the mainstream as hypocritical and stupid” (CHR, p 399). I believe that one should call a spade a spade. If somebody defends illogical ideas or ones for which there is no evidence, there is little reason to take it seriously. Robert Solow (1984, p. 146) in his interview with Arjo Klamer, on the state of economics and about the role of the rational expectations revolution, suggested, by analogy, that if somebody approached him and said he was Napoleon Bonaparte he would not be compelled to discuss the details of the battle of Waterloo with him. There would be no knowledge to be gained.

I emphasized, but will again say that I having nothing against talking to the mainstream, and in my edited books Barry Eichengreen, Jeff Frankel (I suppose cutting edge economists by CHR standards), and Bill Niskanen, a conservative economist, have been published alongside heterodox economists (Colander is in one of them, but will not venture to classify him as heterodox!). That did not help me understand how the world works, but simple to have a better perspective on their views. My guess is that they suggest I am sectarian because they, in turn, “suspect that Vernengo would see our position as selling out” (CHR, p. 339). I did not say that in my paper, have no way of knowing if that is true, and am not particularly interested in the topic. What I very clearly accused them of doing is giving terrible advice to their students. That is, to tell them that to befriend the mainstream is the way to be influential in the profession (i.e. influence the mainstream).

They also confoundedly think that they propose “similar arguments to Vernengo’s—that most heterodox economists should see themselves as policy-oriented political economists, and not as economic scientists—and that their primary target audience should be policymakers.” How can one give advice if the diagnosis is not correct, and how can one get an accurate diagnostic unless one has a coherent theoretical framework to analyze reality? I do not think that theory (science for CHR) should be left to the mainstream, while the lowly heterodox economists should dedicate to deal with policy making (art for CHR). Again, what I clearly stated is that, if heterodox economists are in the look for an audience, policy makers are more relevant than the mainstream. Heterodox economist’s alternative theories are essential and integral to their policy advice and theory and art might be more intertwined than CHR presume.

CHR (p.407) suggest that heterodox economists should be more friendly towards the mainstream because, in their view: “the reality that underlies our call for change is that heterodox economics are being squeezed out of the U.S. programs and more and more are being squeezed out of European and Latin American programs.” Again contrary to the authors I am at a University with a graduate program that is pluralistic and has both mainstream neoclassical and heterodox elements, and I can directly talk about my practical experience, having taught core courses in the Ph.D. program for the last several years.

Heterodox department suffer pressures, no doubt, but is far from clear that they are going to vanish in the United States. There is a significant demand for heterodox programs, because lots of undergraduate students feel the need for a more sound theory that is able to help them understand how the world really works. More over there is a need for that not just in the United States, and, as a result, heterodox graduate programs receive lots of foreign students in search of an American University education, and a good dose of common sense in their economics. Having studied and taught in graduate programs in Latin America I can simply say that the authors are plainly wrong. Heterodox ideas have been on the rise in Latin America since the demise of the Washington Consensus, and the election of several left of center governments. I will not comment on the European situation, since I try to avoid talking about things I have no direct reliable information.

But even if they were right, their point is basically that since the heterodox are in retreat (again something that is at least doubtful), they should just join the wave of the mainstream, or the best of them, and hope they would like our ideas. If we are well behaved, and do not say that they are wrong because that sounds angry, then they might not kick us out. The agenda they propose is self-defeating. And they will have no influence on the mainstream, unless they say things that are not threatening to the mainstream, which by definition implies that no criticism is acceptable. That would only lead to the victory of vulgar economics, a defense of the status quo with no coherent theoretical foundation. In other words, this would imply an economics at the service of the powerful.

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