



Introduction to the New Paradigm of Political Economic Theory

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Abstract

This short article is an attempt to provide a reasonably simplified introduction to a complex initiative. Influential Fellows in the World Academy of Art and Science, moved in part by the global crisis of unemployment and a conspicuous lack of theoretical engagement that might constructively respond to the problem, came to the conclusion that the reason for the silence of intellectual concern was because there was a dire need for new thinking about the importance of political economy and its salience for a defensible world order. Leading figures in the Academy, such as Orio Giarini, Ivo Šlaus, Garry Jacobs, Ian Johnson, and many others, have diligently worked on a new economic framework with the focus of the centrality of human capital as a critical foundation for economic prosperity.

*This article seeks to contribute to a clear and more simplified description of the fundamental paradigms of traditional and emerging economic order. It seeks to set out the paradigmatic contours of classical theory, it moves from classical theory (the old normal) to the new normal in neoliberalism and then recommends a framework for the future that borrows from the new paradigm thinking of jurisprudence. It applies and summarizes these ideas as guidelines for the development of a theory about political economy as an inquiring system with a comprehensive focus and a fixed concentration on human-centered approach for the future. This approach summarizes articles the author wrote for Cadmus.**

1. The Background to Basic Theory and its Roots in *laissez-faire*

Economic Theory is a disputed field of intellectual endeavor. The stakes implicated in economic theory development are high and as a consequence theory is a contested domain. The contestation is intensified because the dominance of a particular theory will influence the social impact of that theory on human relations and this in turn will invite policy interventions and policy consequences. Within the arena of theoretical contestation, there has emerged a new normal for economic theory. We may regard this new normal as the conventional paradigm of economic theory. The new normal has come with various terms of identification, but the one that seems to be ascendant is encapsulated in the phrase “economic neoliberalism.” In a sense, economic neoliberalism draws powerful inspiration from the earliest iterations of the nature of economic activity. In the 18th century, French officials adopted and popularized a phrase that would serve as both an empirical description of ideal economic exchanges, as well as a

* See <http://cadmusjournal.org/author/winston-p-nagan-0>

preferred model for the structure and function of the arena within which economic activity happened. The phrase was *laissez-faire*. In practice, this meant that the state should reduce its regulatory control over economic interactions within the body politic. The less regulation, the less interference there would be in the arena of economic activity. Less interference meant increased dynamism in the arena of economic productivity, distribution, and exchange.

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In the latter part of the 18th century, the moral philosopher Adam Smith published his famous book, *The Wealth of Nations*. Smith was aware of the principle of *laissez-faire* that had emerged in French practice. Indeed, he found this idea compatible with the theory of economic enterprise that was developed in his book. Smith provided both a description of how economics worked, and by implication, provided a justification for the importance of his model in improving the level of economic prosperity in society. Adam Smith was preeminently a moral philosopher with profound economic insight. In his book, *The Theory of Moral Sentiments*, he noted that the specialized capacities of human beings were not a matter coordinated by centralized authority and control. On the contrary, it was influenced by something more impersonal—the market. By the pursuit of economic self-interest and the system of pricing, human beings and their capacities are led to meet the needs of others, who they do not know and by mechanism, they do not comprehend.

The genius of Smith’s work lay in its simplicity using common sense ideas to sustain a level of understanding of the workings of economic order. Economic relations encompassed the supplier of goods and services and the demander of goods and services. The goods and services constituted property that was exchanged between supplier (S) and demander (D). The arena of this exchange between S & D was the market, which established a natural equilibrium when it functioned optimally and satisfied the self-interests of both S & D. We may look at Smith’s model as the old normal of economic theorizing. The importance of this model is its reinvention for the new normal model of economic neoliberalism.

2. The Influence of Value-Free Positivism

We must carefully remind ourselves that Adam Smith was at heart a moral philosopher. This particular understanding of the role of the market became a central feature of his work, largely because subsequent economists committed to the positivist approach to the study of economics received no inspiration to moderate the dynamics of autonomous market, with the untidy implications of collective and individual social responsibility. Vitaly important to this approach was its strenuous justification of insulating economics from social reality and social responsibility. Indeed, positivism as a science went much further. It excluded normative discourse and its value implications because values were essentially non-science. At the time, there did not exist a credible science of society as well. Adam Smith’s theoretical

meditations did not subscribe to this as modern scholarship has amply demonstrated.[†] Braham has isolated four precepts in the corpus of Smith's writings which clarify this issue. First, there is the assumption that when people are left alone to pursue their own interests, there rides along with this dynamic an *invisible hand* that indicates that society will benefit from this conduct as a whole. This idea is moderated by Smith's moral egalitarianism, which implies that every person has equal moral worth. This brings us to Smith's ideas of social justice, which are connected to moral egalitarianism. Here Smith was deeply influenced by the jurisprudence of natural law. Natural Law makes a distinction between commutative justice and distributive justice. In the latter, justice is done according to the right one has to compensate for a legal wrong done. The former is more complex. Smith's work is permeated with discussions of the foundations of distributive justice.

Following this classical tradition, distributive justice is equated with beneficence, the application of 'charity and generosity' based on an individual or social assessment of 'merit.' Under this notion the rules that assign particular objects to particular persons, which is the nub of the concept of distributive justice, is a private and not a public matter or one of social norms; it is not a duty of the society at large and no one has a claim in morality against others to alleviate their condition. Smith subsumes this notion of justice under 'all the social virtues'.[‡]

Under the influence of the old normal model of economic theorizing, modern science added an important dimension to the evolution of the old model. In the early 19th century, the social sciences and law came under the influence of positivism. The positivist impulse was meant to bring intellectual rigor, a rigorous commitment to objectivity, and an insistence that scientific inquiry be completely separated from inquiry into values, morals, and ethics. The influence of science and mathematics on economics has been enormous. Credible scientific work in economics required a reliance on mathematics and mathematical abstractions. This tended to remove theory from the critical scrutiny of intellectuals untrained in mathematics.

In the context of infusing complex mathematical equations into the theory of economics, the trend led to a greater formalization of economic theory and as a consequence, the formalistic emphasis was further abstracted from the concrete conditions of social life and human problems. Moreover, the principle that the market established an abstract equilibrium of absolute efficiency seemed to be conventional wisdom in policy-making circles. This approach to economic organization received a severe setback between 1929 and 1933. The conventional wisdom at the time was that the *laissez-faire* approach to a weakly regulated economy was the cause of the Great Depression, and there was no natural force within the market to self-regulate the economy out of the Depression. In later years a single American economist, Milton Friedman, claimed that the Depression was not a failure of the free natural market, but rather a failure of government policy. The government did not sufficiently monetize the economy and within three years the amount of money in the economy was reduced by a third. This he claimed was the cause of the Depression and not the fidelity to a weakly regulated market.

[†] See Matthew Braham, *Adam Smith's Concept of Social Justice*, August 14, 2006

[‡] *Id.* at 1

3. The New Normal in Economic Theory: Economic Neoliberalism – Milton Friedman and the University of Chicago’s Economic Department

Milton Friedman is generally acknowledged to be the architect of the New Normal Paradigm of economic thinking. He was a leader of the University of Chicago’s Economics Department, which was the institutional base for the New Normal Paradigm. The two significant influences that had emerged in particular after the Second World War was the Keynesian influenced American New Deal and the reach of Stalin’s influence in Eastern Europe. From the perspective of Friedman and his colleagues, the New Deal was a form of creeping socialism, and an indirect threat to freedom. With regard to Stalin’s socialism and its extinction of private property, the Stalinist State control of the economy was quite simply an extinction of freedom. In 1947, Friedrich von Hayek, Milton Friedman, and others formed the Mont Pelerin Society to address these questions intellectually.

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The fundamentals of economic neoliberalism insist upon a radical privatization of property and value in society. In short: if a matter may be privatized, it should be privatized. Additionally, economic neoliberalism favored the notion of the minimal state. In short: the more deregulation and limitation on the state’s power to regulate, the better. A strong belief in corporate tax cuts and reduced taxes for the wealthy. A strong belief in trade liberalization and open markets. Finally, with regard to the minimal state, there would be a massive diminution of the role of government in society: The writer Tayyab Mahmud describes economic neoliberalism as follows:

The neoliberal project is to turn the “nation-state,” one with the primary agenda of facilitating global capital accumulation unburdened from any legal regulations aimed at assuring welfare of citizens. In summary, neoliberalism seeks unbridled accumulation of capital through a rollback of the state, and limits its functions to minimal security and maintenance of law, fiscal and monetary discipline, flexible labor markets, and liberalization of trade and capital flows.

Friedman made several strong arguments as to why governmental intervention into the market is generally futile, or leaves the economy worse than it was without the intervention. These arguments were formed around the ideas of adaptive expectations and rational expectations. With regard to adaptive expectations, Friedman demonstrated that the government printing money increased inflation and businessmen neutralized the rate of increase in the money supply by predicting it. The rational expectations argument was based on the idea that the market would predict and undermine government intervention. These ideas were meant to show that markets are indeed self-regulating and that regulation is both unnecessary and dysfunctional. There are a vast range of critiques of economic neoliberalism, but the critique of N. Chomsky seems to be one of the most compelling.

Neoliberalism is actually closer to corporatism than any other philosophy in that, in its abandonment of the traditional regulatory function of the state and embracing of corporate goals and objectives, it cedes sovereignty over how its economy and society are organized to a global cabal of corporate elite.

Since the economic crisis of 2008, the criticisms of economic neoliberalism have also focused on the deregulation of the global financial system. The critique of the financial system is that it is organized along the lines of a gambler's nirvana. Additionally, this is an economic model that could not predict the financial catastrophe that was to accompany the crisis. The consequences of the theory and its practice have also led to a global crisis of radical inequality. In addition, the consequences of the theory would reflect on its absence of a credible theory of sustainable development. This is a theory that resists the concern of the impact of the economy on environmental degradation and climate change. Finally, the radical exclusion of values from economic theory means that the assignment of responsibility to the private sector for mismanagement and dangerous conduct is undermined.

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The central thrust of our emphasis is to deemphasize the abstract formalism of economic neoliberalism pseudoscience and to develop a comprehensive theory for inquiry into economic phenomena from the local to the most comprehensive Earth-Space context. We recognize that putting theory into the most comprehensive context generates complexity and a critical need for expeditious knowledge integration. In short, economics should be enriched and informed by sociology, anthropology, political science, the psychological sciences, as well as lessons from the enhanced methods of the physical sciences. Therefore, our theory and method for inquiry set out as their initial task, the development of a theory that describes economics as it is in the broadest eco-social context.

4. The Fundamentals of a New Paradigm of Political Economy

The search for a new paradigm of political economy is in effect the search for a theory about political economy that should be comprehensive enough to embrace the context of the entire earth-space community. It must also be particular in adequately accounting for the specific localized effects of economic theory, policy, and practice. To this end, a new paradigm theory of political economy should include the following emphases:

1. It must have a comprehensive global eco-social focus for relevant inquiry. This means theory must not only transcend but also include the relevance of the sovereign state while stressing the importance of transnational causes and consequences of economically related behavior. In particular, it must acknowledge the salience of the global inter-determination of economic perspectives and operations.
2. It must engage in normative, value-based description and analysis including a clarification of the basic goal values of current world order. It must use these as markers to clarify the basic community policies implicated in all economic cooperation and contestation.

Here the all inclusive value of universal human dignity may be a critical principle of political-economic normative guidance.

3. Political economy is not animated by an autonomous machine. It is given dynamism by a sustained advocacy and very critically the vital importance of both authoritative and controlling decision making. The critical role of decision is a mandated focus of professional responsibility as well as responsible inquiry.
4. Just as political economy must account for the structure of authority and control in the sovereign state, it must be alert to the principal features of global constitutional order. In particular, it must be alert to the way in which global constitutional order and its decision processes shape the evolving domains of world order.
5. The evolving new paradigm of political economy must engage in the scientific task of illuminating and devaluating the conditions that inspire political economic outcomes. In short, it is a task that requires the identification and analysis of political and economically relevant causes and consequences that influence economic outcomes.
6. The evolving new paradigm theory of political economy must consciously seek to anticipate and examine all possible relevant future scenarios to enhance the rationality of this function of theory, this function may well be guided by the clarification of the value bases that are desired for future scenarios.
7. The new paradigm of political economy must infuse itself with the most important element of the human faculty—human creativity. In particular, this means that the new paradigm must focus on the alternative possibilities that may be anticipated from relevant future scenarios. This focus should have the creative element that creates the prospect of imaginative but realizable future outcomes that are compatible with the basic fundamental values that represent the common interest of the community as a whole.

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