

CONSTRUCTING CONTEXTUAL ECONOMICS:  
A QUILT OF MANY OLD – AND SOME NEW – PATCHES  
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I. The Outer Circle

Fifteen years ago I started to write an article called “the outer circle”, which kept growing until it became too unwieldy and got consigned to a drawer. The evolution of ICAPE to an active meeting place for alternative economists may be a good occasion to revive the original idea.

The image of the outer circle emerges from the behavior of mainstream, “neoclassical” economists over the last half century. Becoming increasingly defensive and sectarian over this period, the in-group was rigorous in excluding dissidents, sometimes blighting careers at a hint of disagreement with the standard orthodoxy, or, when someone had managed to achieve recognition outside their reach, saying – as I’ve heard it said about Ken Galbraith – “well, he’s very clever, but of course he’s not really an economist!” One result of this circling of the wagons was the creation of an outer circle of critics and dissidents: economists who thought of themselves as “alternative” or “heterodox.” The outer circle, which contains many serious and creative thinkers, has continued to grow and to pose serious challenges to the mainstream assumptions, logic, methods, and conclusions.

I.1.

The intellectual challenges posed by the outer circle come from many directions, but there are some commonalities. Many or most “alternative” economists share urgent concerns about equity, quality of life, securing the future, and the need to recognize the economic meanings of power and of institutions. The mainstream paradigm is criticized for either ignoring these concerns or in fact supporting harmful tendencies in our economic system, towards more inequality and concentrations of power, less attention to or respect for ethical issues, and increasing degradation of the natural world.

A widely shared complaint is that the world that standard economic theory describes and analyzes is not the real world. Increasing reliance on highly mathematized modeling techniques requires excessively simple assumptions (such as perfect competition, perfect information, complete markets, etc.), and fosters a reluctance to grapple with issues that are not amenable to such modeling. Meanwhile, fewer and fewer people can participate in an ever more obscure – and less relevant – discourse.

I tend to expect that most economists who hold what I cite as “alternative” values will want them to play an organizing role in the economic theory that is taught and applied. However, as I will note later, the values held do not always predict beliefs about how our discipline should deal with and present values.

Other differences among alternative economists are often matters of emphasis. While most object to how far the standard paradigm has gone in abstracting from the real world, different groups emphasize different aspects of the left-out context. Some focus on the inadequate

attention given to the relations between economic systems and the natural world, while others emphasize various social realities that are missed, such as power relationships, or ethical and other motivations that are ignored in the assumption of economic man single-mindedly maximizing his own interest, or the economic roles played by women and the activities that occur in places traditionally considered women's domains.

## I.2

Given the neoclassical ability to ignore or transform anything that threatens it, I do not believe that it is possible simply to insert corrections, one by one, into the existing paradigm. Accordingly, since 1994 I have been working with a number of colleagues to develop an alternative, which we call *contextual economics*. The name comes from our conviction that an economic system can only be understood when it is seen to operate within a **social/psychological context** that includes ethics, norms and human motivations, culture, politics, institutions, and history. It also operates within a **physical context** which includes the built environment, as well as the natural world.

The development of contextual economics began as a project suggested by Wassily Leontief, to produce an introductory economics textbook that would be appropriate for the particular social, institutional, *etcetera*, contexts of Russia in its transition to a market economy. Tom Weisskopf and I started with an agreement with Kelvin Lancaster that would allow us to begin by revising his old, but excellent textbook, *Modern Economics: Principles and Policy*. Later Frank Ackerman joined the team, to finish the first, transitional economies edition of *Microeconomics in Context*, which has been translated and is in use in Russia and Vietnam. Houghton Mifflin has now contracted for a U.S. edition; Julie Nelson has been a major force in the next round of rewriting.

As we moved into the assembly of a new approach, a different metaphor emerged. I found that constructing contextual economics was like putting together a patchwork quilt. Most of the needed patches had already been created by others, some in the inner and more in the outer circle. Contextual economics was of necessity inclusive in ways that would allow us to draw on important elements from any school of economic thought. A major part of our job was to find the pieces we needed, and fit them together. Sometimes that required reshaping, or reorganizing parts so that they could make a continuous pattern. I and my colleagues were responsible for creating and imposing that pattern. I have already mentioned a major element of it, in the commonsense idea of understanding economics within its physical and social contexts.

Another major determinant of overall pattern was the idea that it is essential to start from an inquiry into the goals of an economic system. We argued quite a lot over this. Could we state in a reasonable, acceptable way, what such goals are, or should be? And, even if we could, what would that mean for economic theory? This was the only place where our disagreements – and they were many – broke along gender lines. It was the females, including several Russian women economists involved in the early project, who insisted that few readers of the textbook would disagree with the proposition that economic systems should be designed to support and foster human well-being, in the present and the future. It also seemed quite obvious that any theory about economic systems would have to pay attention, all along the way, to the goals of

the system, whether they are being met, how they could be better met, etc. Initially the Russian and American males in the project raised objections to this normative slant. There were further, lengthy discussions over how well-being should be defined. The definitions we finally, tentatively put forth are in the second half of this paper.

I always found it surprising that our group should have found it so hard to agree on how openly to adopt a normative stance, and what the content of that stance should be; for it seemed to me that heterodox economists have strong reasons to turn away from the supposedly value-neutral stance of the mainstream. There's an interesting question of political alignment that may be at play here. I'd guess that most of the people at this conference are Democrats – and "Values" have been claimed as a Republican issue. Of course, we all have reason to be nervous about *whose* values will be embedded in teaching and policy. However, the neoclassical emphasis on efficiency, competition, and the maximization of economic transactions does not come out of a value vacuum. I believe the most effective liberal position is one that confronts the hidden, and therefore insidious, values of materialism and support for the status quo with openly expressed humanistic values that can be discussed and assessed.

### I.3

Sometimes, in the creation of the contextual economics quilt, when we had assembled all the patches we could find for a particular section, we still found gaps which we had to fill as best we could, creating new patches. I doubt, actually, that any of them is wholly new: they are in themselves assemblages of ideas from many places, including thinkers who are not heard of today except in the increasingly rare courses on history of economic thought. I'll devote most of the remainder of this talk to identifying some of the pieces that we were able to adopt more or less whole-cloth from other streams of thought which are represented in ICAPE.

Ecological economics gives prominence to Herman Daly's seminal observation, that the economic system exists within, and is dependent upon, the ecological system. This is one of those "aha!" ideas that, in retrospect, look like a simple statement of obvious fact; but until Daly had spent two decades insisting on it, economics had managed to achieve much elegant simplification by ignoring this critical reality. Once recognized it logically leads, for example, to skepticism about the possibility of sustaining economic growth as we know it – in part because there are limits to the substitutability between natural and produced capital. The fact that the global biosphere is finite also suggests that, sooner or later, there will be a limit to the size of the physical flow of production that can be maintained over time. This has implications for the behavior of producers and consumers which will be a major challenge as Julie Nelson and I – and perhaps another economist, yet to be identified – proceed with writing *Macroeconomics in Context*. In this area we will need to look behind the pro-growth tendency of post-Keynesian and political economy as the same time as we recognize the reasons for the often anti-growth stance of the ecological economists. We will need to examine the assumptions and the emphasized values that lead them to different proposals. Human development theory has been grappling with these diverging tendencies, and may give clues as to how to deal with what is perhaps the most serious split within the outer circle.

In another area, recent thinking seems to be leading more to convergence. Ecological, radical and feminist writings all point to a critical recognition: that we must make an addition to the traditional trio of essential economic activities: production, distribution and consumption. Of equal importance is a fourth, resource maintenance.

The thinking that caused us to emphasize resource maintenance also comes out of our emphasis on the goals of economic systems. While economics, as an academic discipline, has been very fuzzy about its goals, in application economic theory has been devoted to *growth in economic activity*: that is, ever-increasing production and consumption. To many the term “development” indicates a somewhat more respectable goal than growth, since it can be defined to mean *an increase in human well-being*. This does require continued – in some cases increased – production of the goods and services that contribute positively to the quality of life. However, this redefinition can be quite subversive, if it leads to questions about the goods and services that do *not* so contribute. That is a road that Ken Galbraith has been trying to lead us down for years, but it is so political that few have dared to follow him.

If we do adopt development as a goal – or if we adopt the language of the UNDP, led by Amartya Sen, and speak of “human development,” to mean development that focuses on human well-being – then ecological economics insists that we look at the question of whether this development can be sustained.

Sustainable development can only occur if economic activity includes activities that maintain or increase all of the necessary capital stocks. It is well known that firms are obliged to maintain their produced capital – plant, equipment and inventory. If roads, communications systems, etc., are allowed to deteriorate, future resources will have to be diverted to rebuild what could have been maintained. The uneconomic results of failure to maintain natural resources – pollution, etc. – are becoming equally obvious. However the maintenance of personal and social support and well-being has received far less economic attention.

To consider the necessity to maintain the intangible, unmeasurable stocks of human and social capital, consider that formal education systems, norms of childrearing, or socially accepted patterns of behavior could change in ways that cause a deterioration in the level of education and health of a population. Examples of either decline or improvement in social and human capital might also be identified in such cultural and ethical aspects of behavior as the prevailing standards and expectations of honesty, reliability, initiative, and originality. The point is that, as with natural and produced capital, when social or human capital deteriorates, development goes backwards. Even the narrowest growth agendas of the most mainstream economists are hurt by such failures. As Alvin Toffler once asked a group of CEOs, “how productive would your workers be if they were not toilet-trained?”

Feminist and socio-economic works were among the places where we sought assistance in finding a pattern, or structure, within which the economic activity of resource maintenance would receive its due recognition. A focus on caring labor, and on the non-monetized,

cooperative economies of households and communities inspired in contextual economics a structure that organizes discussion of a modern economy into three spheres:

- The **business** sphere is composed of profit-oriented firms – which, however, contain other important motivating forces beside the drive to maximize profits. It is worth noting that corporate charters were at one time granted on the assumption that corporate activities would promote human well-being. This concept is often forgotten, but – as is sometimes stressed in radical economics – the potential remains for it to be revived.
- The **public purpose sphere** is composed of governments and NGOs. Like firms, they use money as the principal (though not the only) medium of exchange for procuring labor. Unlike firms, they have an announced goal of advancing the well-being of some defined portion of society, and do not have shareholders or owners to whom they must return a profit.
- The **core sphere** is composed of households and communities. Their principal use of money is for exchanges with the other two spheres. The motive for economic behavior in the core is the survival and well-being of individuals – self, family, other community members. The resource-maintenance activities of the core sphere includes the work that develops and maintains human capital. For children, that means nurturing, nutrition, basic education and socializing; and for those already in the work force, the refreshment of mind and body and spirit for enhanced health and vigor.

This tri-partite division emphasizes that, while the business sphere is responsible for much produced capital, as well as many final goods, all of its production and distribution ultimately depends on the natural, human and social capital that are derived from the physical context of nature, and from the social context which includes the core and the public purpose spheres.

In a positive development, even mainstream economists are wrestling with efforts to "internalize" the costs of economic activity that have been "externalized" to the natural world. However, other "meta-externalities" – *unwanted side-effects of the whole economic system on its physical and social contexts* – continue to be invisible to the theory. Critical meta-externalities show up in the impact of the economic system on the social context. Productive enterprises need a workforce that has been socialized, beyond toilet-training, to be able to defer gratification, to think independently and sometimes creatively, and to be honest and responsible. Citizens and politicians need to care about the long run, and to be able and willing to address intelligently the myriad highly complex issues that face modern societies.

Unfortunately, what seems to work in the short term for political campaigns, for media success, and for the sales efforts of modern enterprises has nothing to do with maintaining the essential resource of social capital. From the sales point of view, the interest of business is served by fostering a culture of instant gratification and simplified thinking that urges material purchase as the answer to any discomfort. The strongest

influence from the economy to the culture is motivated by corporations' desire to increase short-term profits and sales, achieved through advertising, ownership of news media, and purchase of political influence. Selfishness, cynicism, and impatience with complexity are cultivated in the populace at large – even though these are not the characteristics that will best contribute to a healthy society or a healthy economy.

These concerns are clearly critical for any notion of economic success; perhaps the reason they have been scanted in neoclassical economics is that they are about other kinds of human flourishing, too, not only about economics. They have, in any case, been noted by alternative economists. Socio-economists, though not using exactly the same terms, have pointed out how the core sphere's functions may be eroded by the business sphere, urging selfish materialism, consumerism, and competitive individualism – for example in repetitive pronouncements that “you deserve it all,” and “you’ve got to be the best.” Marxists have talked about social reproduction, with significant overlaps to the meaning of “maintenance” as that concept has been discussed by feminists. I first heard the term “meta-externality” from my friend Steve Cohn, who is a neo-marxist/radical economist – with allegiances also to feminist and institutional economics. I think most of us, similarly, benefit from the rich cross-fertilization that has been taking place among the many strands represented in ICAPE.

In contextual economics, other critical contributions from Marxist, neomarxist and radical thought show up especially in the matter of emphasis. For example, their focus on the quality of the worker's life is an important antidote to the neoclassical tendency to judge economic success solely in terms of the choices available to consumers. While many economists in the outer circle give the issue of equity a more central place than it has in neoclassical theory, the radical groups have been especially consistent in their attention to this value. Another, related emphasis is on power – not just the narrowly defined market power admitted by the neoclassicals, but the reality that, for a wide variety of reasons, different individuals and groups possess different kinds and amounts of power. This reality bears significantly on many economic outcomes – including, of course, the intra-household allocations of work and of resources that are emphasized by the feminist economists.

As one final example of how we have constructed our patchwork quilt, institutionalist ways of thinking are especially congenial to contextual economics. The institutionalists have insisted not only upon the relevance of institutions, but also, in varying degrees, upon the ways in which economic outcomes both affect and are affected by all the other elements of what we have called the psychological/social context. We have tried to learn from not only the successes, but also the failures, of the institutionalists. They have contributed an enormous number of extraordinarily valuable insights into the social, cultural, historical, etc. contexts of economic activity; but these insights have not been woven together into a cumulative discipline. Recognizing this danger, we have moved cautiously, trying not to throw out critical connecting elements of the neoclassical paradigm until we could at least dimly see what might be used to replace them.

## II. A closer look at some aspects of contextual economics

A theme that runs through all of the above is contextual economics' insistence on identifying the relevant goals – the goals of the actors and the activities that are included within economic consideration, and also the goal of economics itself, as a social science. It is with this topic that I will begin a brief review of some salient features of contextual economics. I will also look at some issues that arise in our treatment of consumption and production, and, in the last part of this section, at some issues of methodology that go along with our approach to the content of economics

### II.1

Neoclassical economics texts often suggest that this discipline has no goals of its own, but will assist its users to achieve any goals of their own *efficiently*. Efficiency, in the economic context, means operating so as to maximize the money value of the results (such as output) that can be achieved with a given set of resources (such as inputs). It is easy to agree that efficiency, in this sense, is often important, even essential.

However, the neoclassical penchant for symmetry results in the presentation of consumer behavior as a mirror to producer behavior, assuming the goal of efficiently allocating resources (the consumer's budget) to maximize utility. This breaks down in the admission that no one has ever been able to define utility operationally: it cannot be observed or measured, and we therefore cannot know if it is being maximized. This problem is brushed aside by applying the rationality axiom: if we assume that all (or most) actors are rationally maximizing their utility, then we can assume that all the outcomes we observe do represent individual optima, given existing constraints. This tautological reasoning is so unsatisfactory that it, too, is frequently swept aside, with a further decision to replace utility, as the maximand, with consumption. (Many neoclassical articles begin with the statement: "Since utility is unobservable [or unmeasurable] we will use consumption as a proxy...")

Contextual economics emphasizes that most economic goals – efficiency, maximizing production or consumption, earning money – are best understood as *intermediate goals*, i.e., means to other ends. The relevant *final goals* might include, for example:

- the satisfaction of basic physical needs
- happiness (including a good balance of comfort and stimulation)
- self-respect and the respect of others
- self-actualization
- fairness in the distribution of life possibilities
- freedom
- democracy and participation
- a natural environment that supports healthy human survival, including the need for beauty

This list seems like a good sampling of things that many people would regard as valid ends in themselves. However, particular individuals might argue for removing one or

more items, or for adding some. Some might replace the whole list with a single final goal such as "service to God." Contextual economics encourages students to begin by considering the relation between their own final goals and the intermediate goals (efficiency, economic growth, consumption) that are assumed in most economic discussion.

As for the goals of the discipline itself, we begin with the question: what is the purpose of an economic system? The answer which supplies the starting point for contextual economics is that *the purpose of an economic system is to contribute to the survival and the well-being of those who are affected by it, in the present and the future.*

Does it matter if this goal is accepted and pursued by the various economic actors in a society? The standard, neoclassical answer would be "Not at all: if everyone pursues his or her self-interest, the whole economy will move towards an optimum, 'as if led by an invisible hand.'" Economic theory in the late twentieth century avoided any discussion of goals. However, it implicitly accepted the goals of maximizing the ability of participants in the economy to pursue their self-interest, and of enhancing efficiency, so that the pursuit of self-interest could deploy the available resources to achieve "the most desired results." Contextual economics challenges this conclusion by asking, "Most desired by whom?"

We overtly espouse the value judgment that the only acceptable answer to the question of "whose interest counts?" is "Everyone's." This is in stark contrast to the standard theory, which, while disclaiming any values, will admit that it is oriented to the achievement of efficiency through the price system. This immediately narrows the range of self-interested motives that the system works to fulfill to those that go through the market: specifically, the consumer's desire to make purchases and the producer's desire to make profits. The efficiency characteristics of the system work only for these desires which allow the economic actor to participate in the market – and even then, only if they are backed up by money. In the "one-dollar, one-vote" price system, the market minimizes recognition of the needs, wants and values of those who have few dollars with which to express them. Since standard economic theory has no way of formally recognizing the validity of needs and wants that cannot achieve market expression, *the emphasis on efficiency crowds out attention to issues of equity.*

Contextual economics proceeds from the assumption that, like other social sciences, its goal is to contribute to accurate understanding and analysis of some portion of human behavior, in order to assist people to achieve and improve their well-being. Additionally, *it does not leave it to the market to decide whose well-being counts;* contextual economics, as a social science, adopts the goal of providing understanding and analytical tools that can improve the well-being of all humans, in the present and in the future.

Neoclassical models are notoriously resistant to the introduction of concerns for social justice and for institutional and ecological health. The goal of equitable distribution, in the present, and between present and future generations, has remained the stepchild of neoclassical economics. Contextual economics has drawn on philosophy and other



branches of learning beyond economics to take steps toward correcting this situation. [i] *Microeconomics in Context* lays out several definitions of equity, proposing a variety of decision rules that can be selected or combined for different circumstances. In our chapter on households, and elsewhere, we present facts about gender inequities in home and work settings. Throughout the book we remind the reader of the dynamic realities of economic systems, raising awareness of how current activities may affect future generations. In assessing the success of economic systems, the text pays equal attention to distributive justice, to productive capability, and to definitions of well-being.

## II.2

In the contextual economics view consumers are seen to play two quite different economic roles. One relates to the traditional assertion that final consumption is the ultimate purpose of all economic activity. In this view, production and distribution exist solely to increase the well-being of consumers. Here consumers are the *justification* for economic activity, and therefore also for economic theory.

At the same time, consumers keep the economy going by generating demand for goods and services. Without this demand, the supply side of the economy would expire: how long can producers keep producing if no one buys their goods? Consumers as a source of demand are thus central to the *mechanism* that makes the economic system run.

Consumers themselves may have reason to feel differently about these two roles; and it may be in the interest of society at large to seek ways to reduce the importance of the second. The neoclassical welfare goal of maximizing consumption (in some cases emphasizing the second consumer role more than the first) relates to the neoclassical concept of consumer sovereignty – a term that is commonly used both normatively and positively (generally without noting which is which). As a normative term, consumer sovereignty means that all economic activity *should* promote the welfare of human beings in their capacities as consumers. The positive use of the term makes the assertion that all market activity *does* respond to consumer desires; that is, that the types and quantities of goods and services produced in an economy are ultimately determined by the true desires of consumers.

The normative meaning of consumer sovereignty gives a drastically narrow focus to neoclassical economics. In reality, people are not only consumers; they are also workers, citizens, family members, volunteers, learners, law-makers or other public servants, etc.. Economic activity should properly be directed toward enhancing the well-being of human beings in all of their roles. At the same time, it is important to recognize that consumption also occurs in the business and the public purpose sectors, which purchase and consume a huge variety of goods and services.

Considering the positive side of consumer sovereignty, we must ask: is it true that the types and quantities of goods produced in a market economy are determined by the true desires of consumers? The positive version of consumer sovereignty exaggerates the ability of consumers to act independently in pursuit of their own desires, ignoring such

issues as social interdependence and historical constraints, with associated path dependence. It also fails to account for external forces such as advertising, which play a large role in forming consumers' desires.

### II.3

Contextual economics views households and communities as economic entities that engage in all of the basic economic activities. Far from being only consumers, they produce many of the final goods (e.g., cooked meals, made from grocery purchases; homes, made from houses) that are essential for well-being. They are also critical sources of human and social capital formation. Estimates of the *market value* of work done in homes and communities, without pay, range from 20-35% of GDP, while the *proportion of time* devoted to non-paid work ranges much higher – especially for women.

When looking at the business sphere – the standard economic model for production – many of the ways in which the contextual economics approach to production differs from the neoclassical stem from a refusal to depend upon the theoretical ideal of perfect competition. It is widely recognized that this ideal diverges dramatically from the reality of modern markets. It is time for theory to take the leap, to follow reality.

There are several reasons why this leap has not previously been made within any fully developed, market-oriented system of economic theory. One is that it is difficult to do – especially if one is determined to end up with a theory that looks like neoclassical economics. The mainstream methodology – the types of mathematics it employs, the sort of models it presents as "theory"[ii], the reliance on the "long chains of deductive reasoning" against which Alfred Marshall so presciently warned a century ago – all have developed in absolute dependence upon the elegant simplifications of a complex world that are made possible if we make just one little assumption: that *perfect competition is the norm*. If we refuse to make that assumption, we give ourselves a very difficult task: to develop new tools – new methods, assumptions, procedures, a new idea of what a social science should look like – which can deal with the much greater complexity of a world that is nowhere near perfect competition.

The other reason why this leap has not been made is that perfect competition, and the models and theories based on this assumption, are the foundation for a great deal of modern policy-making, regarding trade treaties, tax regimes, wage policies, and much, much else. This is a reality, but it is a special kind of reality: for policies, like theories, are human constructs. We are not stuck with this sort of individual construct [iii] the way we are stuck with gravity, or the speed of light. To be sure, we need to understand the basis on which current and past policies are made; but only historical path-dependence [iv] causes us to maintain this image, when the fallaciousness of the basic assumption has become so evident – in an era in which, for example, there are only 25 nations in the world whose GDP is larger than the annual revenues of the largest multi-national corporation.

In sum, the two reasons for continuing with the assumption of perfect competition, while understandable, are neither intellectually nor morally justifiable.

When we abandon the assumption of perfect competition we see the process of production with new eyes. First of all, we are no longer straining to see the world in terms of a "norm" of perfect competition, spoiled by "imperfect" deviations. When producer power comes into focus, one of the things we discover, as suggested earlier, is that modern economies often operate in a manner opposite to the predictions of consumer sovereignty: consumer behavior is manipulated as a means to the ends of producers, rather than the other way around. An example of the kind of market competition that actually exists is the scramble to create brand-name-loyalty – an effort whose manipulative character is most vividly evident when it is applied to the "infant to three-year-old market."

The contextual economics emphasis on goals re-emerges here, to remind us of the importance of asking what goals are being pursued in production, whose goals these are – and whose goals are being neglected. Perfect competition, in theory, forces all producers to act as if they were nothing but profit-maximizers. The goals of actual, human producers are much more complex. A given enterprise may be made up of hundreds, thousands, or hundreds of thousands of individuals, who have many different goals that motivate their behavior on the job. Power (including the power that comes from knowledge, some of which may be possessed by a shop-floor worker as well as by anyone higher up) again becomes important, as we examine outcomes via the question: what is the mix of goals that are expressed here?

From the social point of view, as well as from the viewpoint of the individuals involved in production, it is necessary to distinguish between the *end products* of production, which derive their value solely from their contribution to the well-being of society and of individual consumers, vs. the *process* of production, which has other values, related to the goals of all those involved. In addition to providing a source of income, for many people work defines a significant part of their role in society. Work is not only about producing a product or service; it also creates and maintains relationships. It may be a basis for self-respect, or a part of what gives life interest and meaning. These values are ignored in the overt consumer orientation of neoclassical economics, as well as in the covert orientation to maximizing sales. The maximization of sales does not necessarily maximize the well-being of either consumers or workers.

## II.4

This paper has offered a brief introduction to what it means for economics to be taught, learned and understood in relation to the physical and psychological/social contexts in which real economies are embedded. The starting point for our rethinking the attendant methodology is an emphasis on clarity of expression, reduction of jargon, and reference to a real world which, by its familiarity, is intrinsically easier to understand than a counterfactual world of perfect markets and robotically simplified human beings.

It is useful, in thinking about methods – the means that are employed in a discipline – to remind ourselves of the ends they are to serve. Let us, therefore, briefly consider on what basis an economic theory should be judged.

- An economic theory should contribute to an understanding of the workings of the actual economy to which it is directed.
- As a science, it should provide this understanding in a manner that accords with scientific principles of evidence, logic, etc.
- As a *social* science, it should also provide a basis for judging the success of the actual economy, and for choosing policies and actions that will cause the economy to develop in a healthy direction.

These criteria suggest a role and a responsibility beyond what neoclassical economics has accepted. The neoclassical claim to be "value-free" was originally based on a dual wish: to escape Victorian judgmentalism, and to look like a "hard" science (such as physics). More than half a century of attempting to live up to this claim has amply shown that, no matter how desirable it might be (which is questionable, if the above criteria for a social science are accepted), it is in any case impossible. Neoclassical texts, attempting a strict division of normative from positive science, often repeat the statement that "you cannot derive *is* from *ought*." True enough; but, in fact a great many statements about the world are a mixture of positive and normative, fact and value, *is* and *ought*. You *can* derive a mixed *is/ought* conclusion from a mixed *is/ought* premise. It is essential to recognize this mixture, and to deal with it openly.

The neoclassical notion of what it means for a social science to be "scientific" is not the only possible approach. Thinking this matter through afresh, it appears that certain basics must be present. These include:

- A respect for observed facts.
- A continual attempt by researchers to be as objective as possible. To this end the contextual economist is encouraged to be aware of personal values and possible biases.
- Recognition of a scientific community which can, collectively, compensate (to some degree) for one another's biases and arrive at more certainty than is possible for a single individual.
- Findings presented in such a way that the logic of the argument can be understood and assessed by the larger community of potential users (i.e., avoid jargon).
- A structure that permits and encourages the accumulation of knowledge and understanding.
- Efforts to achieve a reasonable degree of internal consistency in the theory – noting, however, that a determination to achieve perfect internal consistency can result in premature closure, making it harder to incorporate later improvements.
- Openness to continual change, as the discipline accumulates knowledge and wisdom, as events disprove some tenets, as change occurs in the subject matter of the discipline, and as changing times require different emphases.

These guidelines are the basis for continued development of methods and techniques in contextual economics. The earlier description, of the bases on which an economic theory

should be judged, have also guided our selection of subjects to emphasize. There are, additionally, some practical considerations that are required of any economic theory that aims to compete with the neoclassical paradigm. It must be teachable; and (for the practical realities of academia) it must be possible for students' knowledge and understanding to be tested.

All scientific theory exists in a tension between complexity and simplicity. A critical aspect of any scientific – or social-scientific – endeavor is the decision of where to draw its lines – what it will include and exclude. Attention to *contexts* has forced us, in developing contextual economics, to broaden the scope of our inquiry, taking into account things that the neoclassicals have chosen to ignore. Attention to *goals* forces us to pay more attention to the minds of the human beings who are the subjects and the actors in economics. There is likely to be some kind of loss with every gain, and, indeed, it is quickly evident that contextual economics cannot be so tidy as its mainstream competitor. As we gain in relevance and realism, we may expect to lose, for example, the ability to make certain kinds of models look powerful and predictive. I personally believe that the trade-off is worth it – but we still have a lot of work to do before this belief can really be tested.

Theory must abstract from specific cases, finding the generalizations that will fit a large number of individual cases. This necessarily depends upon a process of simplification, in which the complexity of the world is presented systematically, through a small enough number of terms and ideas so that they can be grasped, after a reasonable period of study. That process must begin with selection. A useful, relatively "true" theory is one in which:

- The necessary *selection and simplification* of facts and concepts is done appropriately, emphasizing the issues that are most important to human experience as well as those that are most useful for achieving an understanding of economic realities.
- The most critical *logical relations* (such as causality, temporal sequence, exclusivity, etc.) among the selected elements are appropriately identified.
- There are *contextual guidelines* to indicate the circumstances under which the selection of critical elements and the identification of their logical interrelations will be more – and less – relevant.

A social science theory may succeed quite well on the first two of these requirements but still fail on the third. When there is failure to recognize that every simplification has its appropriate range of application, then there is no guard against the tendency to misuse concepts outside of their range.

One motivation behind the growth in sophistication of techniques in neoclassical economics has been the hope that more complex tools could handle a richer, more complex view of reality. Fifty years of intensive experimentation with this hypothesis have failed to confirm it; the evidence suggests, indeed, that this is a dead-end road. "More of the same" will not be the solution; greater realism may require the use of simpler, rather than more complex tools.

In our first, introductory-level, contextual economics textbook we have followed the lead of Kelvin Lancaster – himself a noted mathematician – and used the basic, standard graphs and the simplest possible equations, employing them only when it was evident that they made the point more clearly than text alone could do. We also followed Lancaster in emphasizing how much is left out of the usual graphs: e.g., they often assume that there is no movement in any relevant conditions that are not mentioned in a given graph. We noted this assumption more frequently than is common in standard texts. We have also introduced "thick curves" as a more realistic alternative to the (in theory) infinitesimally thin lines which suggest that there is, for example, normally but a single price that can be associated with any quantity that is sold.

We have not yet dealt in detail with the methods to be used for teaching and applying contextual economics at a more advanced level. We anticipate that the methodological differences between our approach and the neoclassical will become wider at more advanced levels, where the latter's approach often devolves into little more than a specialized branch of mathematics. We suspect that Web-based, hyper-text types of presentations may be important in allowing massive amounts of detail to be offered in such a way that the student can select the relevant ones for a particular problem. (The lack of such a technology has been one of the principal barriers preventing institutional economics from developing a cumulative framework.) Beyond this, we still have much to learn about the methods that will prove to be most useful for higher level instruction and application of contextual economics.

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## END NOTES

i. We were greatly aided, in this endeavor, by the research we had done for the Global Development And Environment's third volume in the FRONTIERS series, *Human Well-Being and Economic Goals* (Eds. Frank Ackerman et al; Island Press, 1997.)

ii. I cannot resist registering, here, a protest over the neoclassical perversion of the word "theory." This word has a useful, common meaning: it refers to a set of generalizations and abstractions that aid in understanding a defined set of facts or events. When the word is used in neoclassical economics it simply refers to whatever type of symbolic model is in fashion at the moment. In contextual economics the term is restored to its wider, common meaning.

iii. Markets and prices, which are the subject matter of the policies and theories, are also human constructs, but of a different kind. The theories and the policies have individual, identifiable authors; I would call these individual constructs. Their authors have discretion in how they describe, or prescribe for, the other type, which I would call joint constructs. The latter – including, besides markets and prices, such things as employment rates, net national product, national trade balances, etc. – are the result of myriad actions taken by myriad actors. Policy-makers can try to affect these myriad actors so that they will change their behavior, and thus change the relevant outcome; and theorists can try to describe them in ways that give policy-makers predictive and prescriptive power. However, no single individual has direct control over joint constructs.

iv. A large part of this path-dependence has to do with the structure of political and economic power. The belief in perfect competition is used to justify certain types of trade, tax and other policies which enhance the political and economic power of particular groups. These groups then support the sources of intellectual justification for the same policies.