REVIEWS

DEVELOPING A SUSTAINABLE FUTURE BY IDENTIFYING AND UNDERSTANDING THE LIMITATIONS OF THE PAST. A REVIEW OF "DEBUNKING ECONOMICS: THE NAKED EMPEROR OF THE SOCIAL SCIENCES" BY STEVE KEEN[1]

One of the first arguments presented in the start of the book and extensively discussed latter on, is the impossibility of providing a generalization of human behaviour. The pattern of behaviour is central in the economic theory, as all phenomena are illustrated and modelled using this starting point. While actions and preferences can be rigorously modelled at microeconomic level, in most situations, when depicting the society as a whole, further conditions or hypothesis are required.

The author sheds light on the improbable or even unrealistic character of such hypothesis, that fail to hold true when confronted with the real world market. From the notion of utility, initially laid down by Bentham, to the development of indifference curves and aggregate consumption patterns, expanding the theoretical work from an individual scope to a wider, community level, requires the adoption of less than logical assumptions such as that all participants have the same preferences and, if obtaining an increase in revenues, they would continue to express the same needs and expectations.

The author eloquently shows that these limitations become null or unacceptable under the test of the real economy. Furthermore, the book laments the fact that these weak and artificial conditions have become lost in the latter efforts to expand the theory, and following extensive reiterations of research processes, they become obscured, leaving the uninitiated in a position of overwhelming uncertainty and doubt. Confronted with such unsure theoretical basis, the most common response in many economists and university students is to accept without comment the initial limits or even place further restrictions which in turn lead the models further away from the real market.

Social phenomena are diverse, extensive and exceedingly dynamic. These characteristics make assessments and precise predictions highly illusive. In his book, Keen points out the overall inability of economics through its current neoclassical models to adequately predict market processes and evolutions. Crucially, the author expresses his dismay, not merely for the lack of accuracy in the economic prognosis, but rather the constant creation of state policies based solely on such fundaments.

[1] The book to which this paper makes references is that of *Debunking Economics: The naked emperor of the social sciences* by Steve Keen, published by Pluto Press Australia Limited, Annandale, 2001.

Indeed the point is made that while mainstream economics champions the claim that the market is the only true force that can efficiently allocate resources and establish prices, governments continue to interfere through various measures seeking to improve and reshape the economy. Thus, a paradox emerges in the fact that ever more intrusive policies are devised on the basis on non-intervention and market self-determination. It can be remarked that the present on-going economic turmoil has enforced this paradox. The unsustainable developments in the world economy which lead to this state of things served to indicate the limits which reside in the free market, while, concurrently, many of the solutions and responses that central authorities adopted thereafter, only underlined the problems and the sentiment that intervention could generate more harm.

Another discussion point is constructed around the notion of price creation. The book challenges the mainstream reasoning that prices are merely formed by the market confrontation of supply and demand, and particularly, that the output of a company is established at the hypothetical point where marginal revenue equals marginal costs.

In keeping with Sraffa's assertions, the size of a company's output is more connected with its ability to attract financing and devise an effective means of marketing the new products, rather than internal productivity limitations.

This argument is enforced with the introduction of time as a factor that influences firm decisions. Undeniably, it should be highlighted that while numerous economic models are constructed as being static, considering the forces that can be identified in a snapshot of the market at a given moment, managers and policymakers, never develop plans of actions be disregarding the effect of time.

Businessmen do not limit their gaze at searching only to maximize current profits. They are obliged by real world determinants to think ahead and make plans for increasing returns over extensive periods, consequently improving the company's worth and image. As Keen describes this situation, in simple terms, it means that, by eliminating time as a factor in certain models investments must certainly be null. Disregarding time as a determinant in economic models would lead to a situation in which the rational ambition of an entity to maximize its current profit would always eliminate the investments which only have a reason for existence if future winnings are expected.

An additional point in the case made against orthodox economics is represented by the hypothesis and conditions that are utilized in demonstrating that perfect competition is a mathematically sound concept and that, in fact, it is always preferable to monopolistic situations.

Without overemphasising the obvious, Keen strides to debunk the practice utilized in economics of considering extremely small numbers as equal to zero. While this approximation can be feasible and manageable at microeconomic level, in the case of one or a few observations, it should not be practiced when the results are extrapolated to represent entire industries or markets. The logic of considering a very low number as zero is unsound when confronted with large populations due to the fact that by adding numerous values close to zero one does not generate a null result.

This part of the book constitutes another expression of the fact that perfect competition is simply a concept, being utterly unattainable in practice. This assertion, while not being original or new, is well constructed, discussed and logically proven in Keen's presentation. The author has made an explicit effort to maintain the content of his book as friendly to the reader as possible, going to great lengths to restrain the presentation from engaging logical assertions through the use of overwhelming mathematical formulas and computations. Thus, the technical parts of previous economic models are expressed without numerical calculus, making the pages friendlier to the uninitiated and greatly cumbersome to the analytical reader.

A point is made that the Walrasian auctioneer has been extensively used in neoclassical economics in support of the notion of equilibrium, despite the fact that the concept was originally adopted strictly as an artificial "ruse" that would simplify the real world phenomena. The presence of the auctioneer enabled the use of techniques that described market actions by solving relatively simple simultaneous linear equations. Nevertheless, this practice was initially intended as a starting stage, a stepping stone to further, dynamic and non-equilibrium phenomena. The author continues to lament the apparent unwillingness of orthodox thinking to dismiss these preliminary stages and proceed to other, more advanced concepts.

Fundamental breakthroughs in the direction of augmenting these theories have been made by Keynes, with great emphasis being placed on disequilibrium, dynamic approach and the idea of uncertainty. However, the book presents explicit regrets that the latter economists developed the Keynesian school of thought into a slightly temperate theory which would not clash with the neoclassical predecessors.

As previously mentioned, the author's view is not predominantly pessimistic, as his chapters make serious efforts in illustrating or at least suggesting means through which the economic theory can be enlarged and improved so as to be able to keep pace with changing market operations and trends. The last part of the book presents the principal heterodox schools of thought which, according to Keen, will certainly prove fundamental to the development of economics in the current century and beyond.

The possible contenders to neoclassical economics are deemed to be Austrian school of thought, Post-Keynesian economics, Sraffian economics, complexity theory and evolutionary economics. The solution for moving forward is by no means exclusive, as elements of two or more schools of thought can be central to developing a new modern perspective on the market operations and economic principles. The latter methodology is significantly new to the study of market behaviour, as the instruments adopted are influenced from the study of species, interactions between organisms and population stability in the field of biology. Nevertheless, these methods can prove very useful as economic processes, being shaped by human behaviour have the tendency to evolve and adapt to various external stimuli.

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