



# Towards A New Paradigm for Economics

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- Presentation for PIDE
- Wednesday, 7<sup>th</sup> February 2007
- Dr. Asad Zaman

# Theme 1: Importance of Knowledge

- Angels prostrate before Adam
- Cause of Muslim Ascendance

حکومت کا تو کیا رونا کہ وہ اک شے تھی  
نہیں قدرت کے آئین مسلم سے کوئی چارہ  
مگر وہ علم کے موتی کتابیں اپنے آباء کی  
جو دیکھا ان کو یورپ میں تو دل ہوتا ہے سی پارہ

## *Theme 2: How Does Knowledge Increase*

- Structure of Scientific Revolutions
- What are Paradigms?
- How do they change?
- Standard story of “accumulation of knowledge” is not right.
- Progress occurs through noncumulative revolutions - incommensurability

## *Theme 3: Distinguish Physical & Social “Science”*

- Ibn-e-Khaldun: “reasons for defeat”
- Victors also misdiagnose reasons for victory
- Transition to Reason from Superstition.
- Reality: Moral failure of Popes.
- Sacred knowledge = Science

## *Theme 4: Emergence of Social Sciences*

- Distorted Methodology -- Physics envy.
- Distorted understanding of methodology.
- History of Social Sciences: Manicas
- Axiomatic Approach: Methodological Individualism
- Values are not Scientific: Positive Economics.

# *Economics: A Success Story?*

- Wealth, not poverty is object of study
- Axiomatic, ahistorical approach.
- What is the meaning of Debreu “T of V”?
- “Fair Wages” - Cambridge Controversy
- Empirical Failure: Profit & Utility Max
- Forecast Failure: 20<sup>th</sup> Cent Econ Crises.
- New Paradigm is necessary (Kuhn)

- "... economics has become increasingly an arcane branch of mathematics rather than dealing with real economic problems"

▪ **Milton Friedman**

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- "[Economics as taught] in America's graduate schools... bears testimony to a triumph of ideology over science."

▪ **Joseph Stiglitz**

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- "Existing economics is a theoretical [meaning mathematical] system which floats in the air and which bears little relation to what happens in the real world"

▪ **Ronald Coase**

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- "We live in an uncertain and ever-changing world that is continually evolving in new and novel ways. Standard theories are of little help in this context. Attempting to understand economic, political and social change requires a fundamental recasting of the way we think"

▪ **Douglass North**

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- "Page after page of professional economic journals are filled with mathematical formulas [...] Year after year economic theorists continue to produce scores of mathematical models and to explore in great detail their formal properties; and the econometricians fit algebraic functions of all possible shapes to essentially the same sets of data"

▪ **Wassily Leontief**

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- "Today if you ask a mainstream economist a question about almost any aspect of economic life, the response will be: suppose we model that situation and see what happens...modern mainstream economics consists of little else but examples of this process"

▪ **Robert Solow**

# *Numerous Alternatives Have Emerged*

- Sustainable development
- Ecology/Environment
- Experimental/Behavioral
- Institutional/Historical
- Human/Social capital
- Radical/Left Wing (Political)
- Methodological (rhetoric etc.)

# *Idea of New Paradigm: Provide Common Basis for Many Alternative Schools*

- Highlights Poverty – the main economic problem.
- Makes one value explicit (as opposed to leaving them all implicit)
- Main Idea: Distinguish between needs and wants.

## *Scarcity/Efficiency not central*

- More than enough resources for basic needs – Amartya Sen
- Fundamental Problem: Redistribution
- Link to Fundamental Welfare Theorems.

- What is Produced: What the rich want (Orphan Drugs)
- How is it produced: (At expense of the poor – environment, ecology, shortcuts)
- For whom – for those with money.
- Health, Education and privatization:
- Coase: Lighthouses in Florida & England

## *Consequences of New Paradigm*

- Relative secondary utility → Rat race model. [empirical verification]
- Trade can be harmful.
- Cost- Benefit analysis different
- GNP measures will change radically.
- Standard Myths exposed – U-shaped distribution – trickle down theory. Mahbubul Haq versus World Bank.