Review of: "What Went So Wrong in Economics"

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“What went so wrong in Economics”

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This is a well written and valuable contribution not only to the history of economic analysis, but to present-day debate on the future of our capitalist market systems. The essay is made up of two parts: the *pars destruens* and *the pars construens*, even though the latter part is less expanded than the former one. Let me first consider Jennings’ argument showing *how* important scholars like Hicks, Hirschleifer and many others tried to justify, i.e. to make sense of a law such that of diminishing returns, a law that has neither a logical nor an empirical foundation. I do believe that Jennings’ meticulous historical reconstruction is correct and very solid. In view of this, it would be of great help to the Profession if he could deepen his research in order to answer the following question: *why* was it that highly respected neoclassical authors could base their theoretical set-up in the area of competitive general equilibrium on such an erroneous assumption? Especially so in view of the famous recantation by Hicks himself who did not hesitate to define “The Hicks Getaway” a mere nonsense, responsible of preventing the development of an authentically dynamic analysis in economic theory?

To this regard, I would advance the following interpretative hypothesis. The problem of economic growth, which had been at the centre of classical economists, lost its privileged position with the neoclassical economists during the Victorian age. Even the subjects of the division of labour and increasing returns – Smith’s great research areas – ended up by being considered as a special (and irrelevant) case of equilibrium price theory. The Harvard researcher Allyn Young had to write in 1928 a vehement article to remind his colleagues that in presence of increasing returns change tends to be cumulative, since the forces for change are endogenous. As a consequence, the actual state of the economy during any period cannot be predicted other than as a result of the sequence of events of preceding periods. Furthermore, an important consequence of the existence of increasing returns is that with an increase in the output level, it becomes profitable to increase the capital-labour ratio. This means that the choice of the optimal capital-labour ratio depends on the extension of the market rather than on relative input prices, which is the opposite to what marginalist theory would lead us to believe.

The challenge to provide an answer to the problem above was taken up by Hicks in *Value and Capital* (1939) whose main objective was to construct a dynamic theory, in the sense of a theory in which “every variable must be dated”. The main difficulty in the shift from statics to dynamics comes from the fact that, while in a static context the decisions of the agents depend solely on current prices, in a dynamic context they also depend on expected prices. The instrument used by Hicks to make static analysis serve dynamic ends was Myrdal's and Lindahl's "period method". In this way, Hicks was able to use the static method to study the "temporary equilibrium". This has been the big trick utilized, that presupposed the assumption of decreasing returns – as correctly pointed out by Jennings.

However, the unique intellectual honesty of Hicks – a virtue that is *rara avis* among economists – allowed him to admit at the end of WWII that an economy can be in temporary equilibrium and yet never in "equilibrium through time" properly interpreted. Perhaps, this is one of the reasons that brought Hicks to his "conversion" around the middle of the 1960s – a conversion that induced the great neoclassical economist to judge as a "piece of rubbish" the theses that he had himself formulated both in his *Theory of Wages* (1932) and above all in *Value and Capital* (1939). If one reads his *Capital and Time* (1973) – a truly fundamental book where "traverse analysis" is, for the first time in economic theory, formulated – one may appreciate how serious was his rebuttal of the increasing costs assumption.

The *pars construens* of Jennings' essay would deserve more attention than can be given here. The basic idea of the "horizonal economics" is to make room, within economic theory, to the consideration of complementarity relations on top of substitutional relations. And as a consequence to open the door to cooperative behaviour, in addition to competitive behaviour. (To use a simple metaphor: one *plus* one makes two; one *with* one makes more than two. This is an instance of the so-called super-additivity property). The fundamental premise that a free enterprise market economy necessarily presupposes for its proper functioning greed and exploitation is rightly rejected by the "horizon effects" paradigm. The transition from the reductionism of *homo oeconomicus* artifice to the anthropology of the "civil animal", i.e. of *homo reciprocans*, is urgent, if a relevant economic discipline has to be reconstructed, after decades "Of empty economic boxes", to recall the famous Clapham's expression of a century ago (1922). To be sure, recent times have witnessed a remarkable upsurge of interest among Economists toward the problem of the anthropological foundation of economic discourse. This is good news, indeed. It seems to me that the contribution by Frederic Jennings goes precisely in the proper direction. For this reason Jennings deserves a special sign of gratitude and encouragement.