Illusion and Delusion in Mainstream/Neoclassical Economics

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Relevant Studies

- Dillard (1988): “The barter illusion in classical and neoclassical economics”.


- Mendoza (2012): *Three Essays on Money, Credit and Philosophy: A Realist Approach per totam viam to Monetary Science*

- Smithin (2013, forthcoming): “Requirements of a philosophy of money and finance”
Smithin Comment on King

“A generation ago Dudley Dillard wrote a famous article on “The Barter Illusion in Classical and Neoclassical Economics”. Now John King has gone a step further and written about The Micro-Foundations Delusion. The illusion has been with us for a very long time, the delusion is of more recent vintage. Together they have blocked a basic understanding of macroeconomic and monetary phenomena at a time when they are most urgently needed.”
But What Does King Find Delusional?

Specifically:

- The DSGE model.
  (dynamic stochastic general equilibrium model)

- The RARE individual.
  (representative agent with rational expectations)
Does not imply that a complete monetary theory can do without:

- Pricing theory
- Cost theory
- Theory of Value
- Theories of the Firm

The question is: to what extent is textbook microeconomics an adequate treatment, and, can it really be “foundational”? 
Interdisciplinary Approaches to the Economy, Business, Money, Finance

(1) **Realist Social Ontology**
   - the “ontology” or nature of social institutions/social facts including business firms, money, banks, governments, etc. This is different from the ontology of physical facts, the “brute facts”, studied in natural science.

(2) **Economic Sociology**
   - study of the specific social institutions in a given socio-economic system. For example, Weber’s study of the “method of enterprise” (capitalism).

(3) **Monetary Macroeconomics**
   - the most important “technical” field of economics. Note the emphasis on the qualifier monetary; macroeconomics is monetary economics.

(4) **Political Economy** –
   - deals with questions of policy and governance, comparative economic systems, notions of equity, income and wealth distribution, etc.
Correspondence with the traditional branches of Philosophy

ontology → realist social ontology

epistemology → economic sociology

ethics → monetary macroeconomics

politics → political economy
Questions Arising

e.g.:

- Where are Simmel’s “two boundaries of the philosophical domain”?

- What kind of knowledge is sought? (episteme, technical knowledge, practical knowledge?)

- What is the exact status of ethics? (cf. “values” in Weber’s rather than Marx’s sense)

(etc.)
Main question for present purposes: What has happened to Neoclassical Microeconomics?

- Does not appear explicitly?

- This is OK, as soon as it is realized that “economic sociology” already includes (e.g.) the study of firms, governments/governance, pricing, market structure, etc.

- However, it does put “the market” in its place in the broader social order (so to speak) rather than being the only thing discussed, and certainly not the first thing discussed.
An “Iterative Sequence” as Applied to Economic Sociology

- Weber’s “method of enterprise” implies (in this order), the development of following social institutions”

  (a) a “political settlement” of some kind

  (b) money (unit of account, means of payment, secure credit relations, credit creation)

  (c) private “property” (in the legal sense, not mere possession)

  (d) markets

  (e) entrepreneurial business

- As for “iteration” see Searle (2010), *Making the Social World: The Structure of Human Civilization*. 