Towards a Paradigm Shift in Economics?

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A specialist in monetary and financial issues, André Orléan has written a synthesis of his research that is intended as handbook for the renewal of economic thought. His approach asks us to rethink the place of economics within the social sciences and its relationship to politics.

Reviewed: André Orléan, *L'empire de la valeur. Refonder l'économie*, Paris, Seuil, collection "La couleur des idées," 340 p., 23 €.

Economists and the financial community share a paradoxical fate: their economic influence is strengthened by their mistakes. We all agree that they share much of the responsibility for the crisis, yet we do not call their credibility into question. Over the past five years, the financial markets' leading actors, notably the credit-rating agencies and major banks, have increased their ability to pressure governments. As for economists, far from having lost the trust of our leaders, they remain over-represented in the public sphere. Observing these trends from an academic perspective, at least one important change can nonetheless be glimpsed: neoclassical theory, which since the 1970s has exercised an unrivalled domination over the field, is now in a state of crisis. By brutally calling into question this paradigm's hypothesis of market efficiency, the economic crisis has also triggered a profound crisis in economic theory. The present circumstances demand a new paradigm. In his new book, André Orléan offers just this, by questioning a fundamental economic concept: value.

This would not be the first time in the history of economic thought that a new theory of value resulted in a new paradigm. Classical economists (Smith, Ricardo, and Marx) related the value of a good to the quantity of labor necessary to produce it. The neoclassical revolution (Jevons, Menger, and Walras) replaced this hypothesis with the claim that the value of a good is determined by its utility. According to Orléan, both these ideas must be abandoned. Leaving aside their differences, both classical and neoclassical economists agree that goods are endowed with a substantive value (work for the former, utility for the latter). The task of "recasting economics" (the subtitle of Orléan's book) requires reversing this perspective. Contrary to the claims of the "substantialist paradigm," value is not a property that is inherent in goods and which makes exchange possible. Value does not exist prior to exchange, but is created through exchange. This new perspective on value is the foundation of Orléan's new paradigm.

Starting with this claim, his book is organized into three parts, which explains how this new perspective on value can be implemented on three levels of economic analysis: the definition of scarcity, money as an institution, and the operation of financial markets. Orléan proceeds to deconstruct the substantialist paradigm. While he does not offer a caricature of economics as a monolithic field, he does nevertheless identify the same perspective at play in each of his analyses. That said, the author does not completely reject the neoclassical model, even as he traces the limits of its sphere of validity. The neoclassical model does accurately describe how the economy operates under certain conditions. The four conditions he mentions include: "an ensemble of goods that is known to all actors; a shared sense of uncertainty; collective recognition of the price mechanism; and a strictly utilitarian conception of commercial goods that is shared by all actors" (p. 106). If you change theses conditions, you need a more comprehensive paradigm, one that is capable of encompassing its predecessor.

Orléan's book is also the fruit of thirty years of research and an original trajectory: his work has been deepened and corrected by rereading the classics of social thought and through close collaboration with other economists who are critical of the dominant model. The heart of his approach lies in the Keynesian analysis of financial markets.[1] Beginning with the lack of an objective a priori definition of value, it seeks to bring to light a self-referential anticipatory structure and to analyze resultant mimetic behavior (as occurs on financial markets, where stock prices that seek to preempt other actors depend precisely on their expectations). This ambitious synthesis arrives not a moment too soon, given the current interrelated crises of the economy and economics.

[1] André Orléan, "L'auto-référence dans la théorie keynésienne de la speculation," *Cahiers d'Économie Politique*, nos. 14-15, pp. 229-242, 1988 (the article is available on the author's personal website: http://www.parisschoolofeconomics.com/orlean-andre/index.html)

In this context, the author has contributed to three collective projects. First, Orléan is engaged in an intellectual confrontation with the prevailing orthodoxy that lies at the crossroads of two French approaches: the "theory of regulation" and the "economics of conventions." Furthermore, a debate is currently underway in the academic world about the lack of pluralism in economic research and teaching. It was reignited in 2009 by the creation of the Association Française d'Economie Politique (French Association for Political Economy, or FAPE), which Orléan chairs. Finally, the so-called "appalled economists" (*les économistes atterrés*) have intervened in the political sphere, advocating alternatives to the economic policies that are currently being pursued to deal with the crisis. This group issued a manifesto in September 2010, which was signed by Orléan along with Philippe Askenazy, Thomas Coutrot, and Henri Sterdinyak.[2] These projects represent three different levels of engagement, a point which Orléan emphasizes, as he is particularly committed to separating his theoretical work from his political advocacy. Once this precaution has been noted, however, his book offers an excellent occasion for thinking about the relationship between these three challenges to economic orthodoxy by considering the researcher as well as the actor of change. The work's theoretical reflections seem to offer a foundation for his political and institutional positions without determining them entirely.

When Economists Intervene in the Economy

The book's conclusion shows that by preserving a theory of decision-making that has been refuted by experience, neoclassical theory has taken on the task of engineering competition, a goal that is distinct from the scientific search for truth: "the main end that economists pursue is not to understand facts as they are. Far more important in their eyes is the pedagogical mission of economics. Its slogan is: 'Fight the actors' optical illusions.' Economics is above all a tutor that imposes a reality that is consistent with its model" (p. 322). In its dominant form, the field explains to economic actors how to think "properly" (meaning rationally). Over the past few years, important developments in the field of law and economics offer a perfect example of the normative application of economic reasoning. For Orléan, this position is also a consequence of the neoclassical model's ideal-typical character: "because the model does not aim to describe the economy as it actually exists, but rather to

[2] *Manifeste d'économistes atterrés*, Les éditions qui libèrent, 2010.

present, from a certain perspective, a stylized version of its exemplary form, it offers this novel possibility: to apply itself to reality, not so much as it can be described, as to how it would be if restored to the purity of its concept" (p. 111)." Consistent with Weber's scientific ethics, Orléan wants, on the contrary, empirical analysis to be kept separate from practical advice. His project of recasting the field of economics thus requires a new attitude: the goal is not to devise tools for changing the world, but to understand it. For Orléan, this prohibition, which itself is normative, is coupled with an impossibility of a more practical nature: "The economist cannot make or even control the social forces that produce value as they radically elude individual intention" (p. 327). This claim can be broken down into several stages.

First, to make this quote compatible with economists' alleged responsibility for the crisis and more broadly for the extension of the paradigm of competition, it must be pointed out that while economists cannot *individually* master the effects of their discourse, the claims of their *field* are nonetheless influential. Furthermore, regarding the connection between academic work and political intervention, there is a difference between engaging in critique and formulating policy.

The first effect of Orléan's critique of the substantialist paradigm can be seen in the following logical sequence: Orléan's scholarly work criticizes neoclassical theory; neoclassical theory legitimates financialization; Orléan's scholarly work therefore delegitimates financialization. To be more precise, we can distinguish between three levels of reality. First, economic reality consists of laws, devices, standards of conduct, representations of actions, etc. Second, the dominant economic theory shapes these devices, formulates standards of conduct, and justifies a particular economic system. Third, Orléan's critique consists in reflecting on neoclassical theory and its influence on reality. If his proposals for a paradigm shift actually occured, they would have at least one real-world effect: to reduce the influence and thus the effects of neoclassical theory on economic reality.

Let us now consider the activity of formulating policy. Here we see most clearly the distinction between descriptive and normative statements—in other words, the impossibility of deducing what should be from what is. This logical separation does not however preclude significant sociological or argumentative connections: academic work adds weight to policy recommendations, and, more generally, the quality of a diagnosis is what makes proposals for change credible. In the case of the "appalled economists," their proposals[3] consist above all in demonstrating that the economy can operate differently. The point is to make choices more visible and to put certain economic constraints that are presented as laws of nature back in their place—a place that is subordinate to political decision-making. The critique of the substantialist paradigm justifies this position by deconstructing the naturalistic vision of the economy promoted by neoclassical theory.

It is thus tempting to reformulate the initiative of the "appalled economists" in exactly the same terms as a previous intervention of critical economists: the "economists' call to abandon economic orthodoxy" (*appel des économistes pour sortir de la pensée unique*[4]). Fifteen years ago, this denunciation of economic orthodoxy found its institutional answer in the Council for Economic Analysis (*Conseil d'Analyse Économique*). Conceived to promote multiple areas of expertise and opposing viewpoints, this organization did not, however, encourage the expression of different economic theories.[5]

Can You Remake the World with Copies?

Let us return to the heart of the book's intellectual project. If its subtitle does indeed speak of "recasting economics," the introduction and conclusion underline two important limitations on this task, which rein in the book's ambition, confining it to a reasonable assessment of the framework it discusses.

In the first place, the critical diagnosis it offers of our current situations leaves out both neuroeconomics[6] and the tendency of many economists today to spurn abstract theoretical debates in favor of econometric estimates. While Orléan may criticize this resurgence of naïve empiricism, on the grounds that neutral tools are as mythical as facts that are not laden with theory, readers are unlikely to be persuaded that "pure technicians" are locked into a neoclassical framework that systematically invalidates their analyses when it succumbs to Orléan's critique. We certainly need critical work to expose the unacknowledged neoclassical assumptions underpinning empirical research and their problematic

[3] *Changer d'économie. Nos propositions pour 2012*, Les éditions qui libèrent, 2012.
[4] See http://www.alternatives-economiques.fr/manifeste-contre-la-pensee-unique_fr_art_92_9003.html
[5] Angeletti Thomas, "(Se) rendre conforme. Les limites de la critique au Conseil d'analyse économique," *Tracés. Revue de Sciences humaines*, 17, 2009. Online: URL : http://traces.revues.org/4204 ; DOI : 10.4000/traces.4204
[6] Neuroeconomics uses the tools of neuroscience, specifically brain imaging, to explain economic decision-making.

consequences. Yet the critique of this position should probably occur at a different level. Readers are also likely to find themselves unsatisfied with what Orléan says about neuroeconomics. While he emphasizes that this work does not renounce the substantive conception of value, neuroeconomics is particularly well placed to bring about a paradigm shift. A critique of neuroeconomics that is as thorough as the one he levels against neoclassical theory remains to be done.[7] Finally, the success of these developments, both of which Orléan overlooks, makes one wonder if analytical tools and research methods do not offer a better way of disseminating a new paradigm in the social sciences than metaphysical polemics (which explains the lesser efficacy of a critique of the latter, however appropriate it might be).

The book's second major limitation, given its stated ambition, is that it "deals exclusively with the market economy and not with capitalism" (p. 23), which, according to a minimal definition, implies a wage relationship as well as markets. Specifically, it first considers a particular way of conceptualizing the market (the neoclassical conceptualization), before examining certain empirical markets (financial markets), but not all of them (many other factors alter the dynamic of labor markets, such as legal or housing services, for instance). As long as one remains close to this abstract representation of the market, the mimetic hypothesis will undoubtedly suffice to account for actors' behavior. Yet as one pulls away from this abstract conception, shouldn't one consider other action dynamics, lest one simply reproduce economics' imperialism over other disciplines by replacing instrumental calculus with imitation? The problem appears even more clearly when one tries to analyze not only different kinds of markets, but classically capitalist or social and solidarity economy organizations: it is hard to reduce authority and reciprocity to mimetic behavior while preserving the comprehensive approach that the author values.

The consideration of other action dynamics occurring within markets as well as outside of them can be illuminated by the work of Luc Boltanski and Laurent Thévenot (*On Justification. Economies of Worth*, Princeton University Press, 2006). They too start with the idea that value has no inherent substance and that there exist only different evaluative processes. Their emphasis on the idea of legitimacy adds a decisive factor to this reasoning:

[7] For a general critique, see "D'une hégémonie, l'autre," a paper given by Frédéric Lordon at the first colloquium of the FAPE, 2011, available on the AFEP's website at: http://www.assoeconomiepolitique.org/spip.php?article250

the point is not to throw out the moral implications of value along with substantialism. Substantialist theories of value (work, utility, or others) are conceptions that actors can endorse and which can be the bases for their critique of existing forms of evaluation (and related forms of distribution). Remaining within the sphere of the market, the author incidentally makes exactly this point: there is no need to reject the idea that actors adhere to the principle of utility, but simply to show that this way of evaluating is the provisionally stabilized outcome of mimetic behavior. Yet his overall argument downplays precisely this point because, by starting with a deconstruction of the neoclassical framework, it turns our attention to a theoretical representation lacking any stabilized institutional context (i.e., a quasi state of nature). To the contrary, Boltanski and Thévenot's starting point is the problem of the overabundance of stabilized values that is evident in concrete situations (in other words, value conflicts). Consequently, their argument downplays the ever present possibility of a radical deconstruction of these values and of a theoretical return to the kind of state of nature situation imagined by Orléan. Yet it does have the advantage of reserving a place for the idea of exploitation in one's analysis.[8] In short, the study of an abstract situation lacking in norms (or orders of worth) and of empirical situations that are saturated in norms (or orders of worth) can be grasped as two complementary analytical moments.

In truth, the task of recasting economics' paradigm, which Orléan sincerely desires, has already begun. However, the theoretical framework presented in his book does not rest upon a theory of action that is sufficiently broad to meet this challenge. A pluralist conception of action is required to reincorporate other forms of conduct than the instrumental rationality of the economists or the mimetic hypothesis that Orléan proposes. From this perspective, there is no lack of theoretical resources to build bridges with the social sciences. Without being exhaustive, one could mention Bernard Lahire (*The plural Actor*), Laurent Thévenot (*L'action au pluriel*), Alain Caillé (*Théorie anti-utilitariste de l'action*), Danilo Martucelli (*Grammaires de l'individu*) or Cyril Lemieux (*Le devoir et la grâce*). Moreover, this work depends less on the edification of a new, pluralistic theoretical cathedral than on a more detailed study of economic problems based on research methodologies adapted to a constructivist paradigm. One can, by way of conclusion, wonder to what extent these displacements really call into question the identity of economists.

[8] *The New Spirit of Capitalism,* Luc Boltanski and Eve Chiapello, Verso, 2006.

The Institutional Identity of Economists: A Return to Weber?

From the standpoint of the other social sciences, the change in perspective on value proposed by the author simply consists in putting economic analysis right side up. As original as it might sound in relation to neoclassical theory, the idea that (moral, religious, aesthetic, etc.) values are not simply given but are constructed through interaction is widespread in neighboring disciplines. This is why Orléan also characterizes this perspective as "uni-disciplinary": "once the hypothesis that value is a substance is rejected, it becomes possible to elaborate a general model for understanding values that also incorporates economic activity" (p. 186).

The FAPE is currently promoting the status of an independent discipline in French universities for a pluralist Political Economy open to other social sciences. Another essential contribution of the book is to provide solid justification for this project, while directly feeding into contemporary political economy. This association has created a committee charged with reflecting on university teaching. The reticence of the Association of Professors of Social and Economic Sciences (Association des Professeurs de Sciences Économiques et Sociales, or APSES) to see microeconomics given too prominent a place in secondary education is well known. The book shows that the best introduction to the tools of economic analysis lies in the study of value as conceived by Smith, Marx, and the neoclassical thinkers, and more generally in a solid introduction to the history of economic thought, as is too rarely the case at the university level. In this regard the book's first part offers an excellent outline for a textbook for a future course in political economy. It is just as abstract as the lessons on consumer optimization with which most introductions to microeconomics begin, except that, as we have seen, abstraction is in this instance placed in the service of thinking that is truly wide-ranging.

The question of the relationship between economics and other social science is posed perhaps even more delicately at the level of "styles of economic reasoning" (Ian Hacking). The author acknowledges the problem at the end of his next-to-the-last chapter, where he explains the position of the Nobel laureate Robert Lucas on the difference between risk and uncertainty. According to the latter, "in situations of uncertainty, economic reasoning is of no value" (p. 258). The classic distinction between risk and uncertainty, which we owe to the economist Frank Knight, posits that risk can be gauged in terms of probability—that is, on the basis of observable frequencies of past events—whereas uncertainty refers to events that are fundamentally unpredictable, insofar as they are unprecedented or inassimilable to any other. In uncertain situations, statistical calculations do not work and "actors have no other instruments than their own faculty of judgment" (p. 253). After having shown the link between value objectivity and future objectivity, which neoclassical theory must postulate to ensure that its model functions, Orléan undertakes in the final chapter to contradict Lucas' pessimism by explaining the operation of financial markets, without avoiding the fact that they are necessarily characterized by uncertainty in Knight's sense. The argument from financial conventions is well known and persuasive (it was already presented in a book entitled *Le Pouvoir de la finance* [The Power of Finance], 1999, Odile Jacob), but Lucas' position raises the question if we are in this instance even dealing with "economic thinking" at all. "How do economists think?" asks the title of a recent book by Bernard Walliser (Odile Jacob, 2011). His answer: "by building and using models." It must be emphasized that "models" here refers to mathematical formalization based on statistical hypotheses, not Weberian ideal types. While they obviously share traits with the latter (they are simplified representations), the former in no way adopt the comprehensive empirical approach of the German sociologist[9] (who, it should be recalled, held a chair of economics). Thus if "from the standpoint of the intelligibility of the economic world," what really matters for Orléan is "to know what makes an individual pursue a particular goal" (p. 328), one might well ask if the paradigm shift he wants and the "uni-disciplinarity" he defends do not better correspond to the methodological pluralism and the empirical research tools that have been acknowledged and mastered by sociology since its inception from multiple disciplines. In this respect, one might question the book's choice (and that of this article) to use the idea of "paradigm" to defend a conception of economics that is very close to the other social sciences, where different approaches coexist more often than they come and go.

To conclude, the critique of substantialist theories of value also calls into question, at the institutional level, procedures for evaluating teaching and research.[10] Economists were among the first in the social sciences to emphasize, for the purpose of evaluation, the classification of journals, borrowing in this way a practice common in the natural sciences.[11] To criticize the substantialist hypothesis which posits "the presence of a hidden quantity that

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[9] Stephen Kalberg *Max Weber's Comparative Historical Sociology*, Polity Press, 1993.
[10] On this topic, see the work of the AFEP's evaluation committee: (http://www.assoeconomiepolitique.org/spip.php?rubrique45)
[11] Patrick Fridenson, "La multiplication des classements dans les sciences sociales," *Le mouvement social*, no. 226, pp. 5-14, 2009.

logically precedes and organizes transactions" (p. 24) is to return to one of the inaugural gestures of "conventional economics," which underscores the importance of the political operations of quantification that precede the determination of a measure.[12] The critical implications of this approach lie in its rejection of an objective definition of a priori values for questions in which measurable physical realities (like weight and distance) do not preexist the evaluation itself. More generally, it makes it possible to identify the decisive role of such judgments in individual professional trajectories.[13] Orléan's book contributes in its own way to a body of work that has begun to critique these evaluation systems and to call for reasoned usage (i.e., deliberative rather than mimetic) of these instruments.

Further Reading:

- Website of the "appalled economists": http://atterres.org/
- Website of the French Association for Political Economy: http://www.assoeconomiepolitique.org/
- Website of the Association of Professors of Social and Economic Sciences: http://www.apses.org/

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[12] Alain Desrosières, "Les origines statisticiennes de l'économie des conventions: réflexivité et expertise," *Oeconomia*, no. 2, pp.299-319, 2011.
[13] *Épreuve d'évaluation et chômage*, François Eymard-Duvernay, Octares, 2012.