

INTRODUCTION

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BRIEFING NOTE

THE CAPABILITY APPROACH AND HETERODOX ECONOMICS

INTRODUCTION

It is often argued that contemporary economics is dominated by a mainstream (or orthodox) perspective. Economists and philosophers of science have been engaged in a wide debate concerning the merits of the mainstream economics project. Several approaches are often proposed as alternatives to this mainstream. These alternative approaches are usually referred to under the heading of 'heterodox economics'. Examples of these heterodox approaches include economic traditions like the post-Keynesian, Neo-Ricardian, Austrian, Marxian, Feminist, Evolutionary and (Old) Institutionalist traditions. An interesting question to address in this context is how to situate the Capability Approach within this debate.

1. MAINSTREAM ECONOMICS AND NEOCLASSICAL ECONOMICS

In order to do so, it is crucial to understand the essence of mainstream economics, and how it can be distinguished from the heterodox economic traditions. Mainstream

economics is often identified with neoclassical economics. This identification is understandable, but cannot be taken for granted.

The origins of neoclassical economics can be traced back to the marginalist revolution, and the writings of William Stanley Jevons, Carl Menger and Leon Walras. One of the central postulates of neoclassical economics is that economic agents optimise some variable. This postulate, in addition to other simplifying assumptions, has facilitated the extensive use of mathematical methods in economics in order to model the behaviour of optimising agents. For example, it is assumed that human agents have a complete preference ordering (that is, human agents can rank any of the possible options they face against each other) which can be represented by a mathematical function – the *utility function*.

The external environment faced by economics helped to promote the use of mathematical methods in economics. The rise of positivism during the first half of the twentieth century, together with the great success achieved by natural sciences where mathematical methods were extensively employed (such as physics), led to the generalised belief that the use of mathematical methods is not just useful, but actually essential for economics to become a scientific discipline. In this sense, mathematical methods ceased to be only an

Mainstream Economics:
Requires mathematical methods

Neoclassical Economics:
Requires optimization

Heterodox Economics:
1. Uses mathematical methods among others.
2. Rejects optimisation

instrument (to be used whenever it proved helpful in understanding economic phenomena), to become the very essence of the mainstream economic project.¹ One can indeed question whether what we now term as mainstream economics is best characterised in terms of its mathematical methodology, and not in terms of substantive theories or postulates about the human agent (such as the neoclassical postulate of optimisation).

The distinction between mainstream economics as a commitment to *mathematical methods*, and neoclassical economics as a commitment to postulates like *optimisation* (presupposing complete preferences) may not look very important for practical purposes, for most mathematical methods employed in mainstream economics when modelling economic behaviour are used in conjunction with neoclassical postulates like optimisation and complete preference orderings. But this distinction is not irrelevant, for it is logically possible to use mathematical methods to model human behaviour without presupposing optimisation or any of the neoclassical postulates. Although there is certainly much overlap between neoclassical economics and the current mainstream approach that evolved from the former, it is vital to understand the recent transformations and shifts of emphasis of the mainstream project. The belief

that mathematical methods are essential for economics to become a scientific discipline (as opposed to being just an useful instrument) must be carefully scrutinised, for this belief (and not mathematics *per se*) seems to have become an obstacle (perhaps the main obstacle) to pluralism in economics.

2. HETERODOX ECONOMICS

Heterodox economics is a label that covers a wide diversity of economic traditions which share some common features, one of which is their opposition to mainstream and neoclassical economics. While appreciating the essential contribution of certain mathematical methods, heterodox economists typically reject the belief that mathematical methods are *essential* for the explanation of human behaviour to be a scientific endeavour. John Maynard Keynes (1973) argued that a widespread mistake in economics is the universal and uncritical use of mathematical techniques which are not always appropriate for the analysis of socio-economic phenomena. Keynes notes that these techniques presuppose a world of isolated atoms, which does not necessarily correspond to the existing social reality. The Austrian economist Friedrich von Hayek (1952) criticised the attempt to imitate the methods of the physical sciences in the social sciences that is pervasive in mainstream economics.

¹ on this, see Lawson (2003)

Like Heterodox Traditions, the **Capability Approach** advocates methodological diversity and rejects optimization.

In fact, Hayek, together with other economists like Alfred Marshall, notes that economics would have more to learn from biology than from physics. Thorstein Veblen (1898), one of the founders of the (old) institutional tradition, suggests the use of evolutionary biology as an alternative perspective. Other heterodox economists, like Joseph Schumpeter (1994), are careful enough to note that any attempt to imitate biology could be as limiting as the mainstream effort to imitate the techniques used in sciences like physics.

It is important to note that *heterodox economists do not deny the usefulness of mathematics*, but only the belief that mathematical methods are essential to science, and the conviction that these methods are always appropriate under every circumstance. The Neo-Ricardian economic tradition is a prominent example of an approach which makes extensive use of mathematical tools. But even Piero Sraffa, perhaps the most influential economist of the Neo-Ricardian tradition, regarded mathematics as a useful tool to be used only when appropriate.

Heterodox economists also reject the neoclassical postulate of optimisation. In fact, another common feature of most heterodox traditions is their elaboration of a conception of a human agent embedded in a social structure, going beyond the atomistic account of human agency that pervades mainstream and neoclassical economics.

The Austrian, Marxian, Evolutionary and (Old) Institutional traditions put much effort in elaborating the social structures which condition or facilitate human agency (even though the heterodox conceptions of agency sometimes contain important differences: Austrian economists, for example, emphasise the role of subjective preferences in determining or initiating human behaviour, whilst Thorstein Veblen (1898) refutes the very notion of an individual that reacts passively to subjective preferences).

So how can we situate the Capability Approach within this debate? It seems that the Capability Approach is hardly compatible with neoclassical and mainstream economics, for neither does it characterise human agency as optimisation (as in neoclassical economics), nor does it require that the explanation of economic phenomena must copy the use of mathematical methods that pervades the physical sciences in order for it to be a scientific endeavour (as in mainstream economics).

Two areas deserve careful attention when addressing the relationship between the Capability Approach and heterodox economics: human agency and human welfare.

3. THE HUMAN AGENT IN SEN'S WRITINGS

Like most heterodox economists, the Capability Approach proposes a

concept of a human agent that is situated in a complex social structure of ethical norms and conventional rules. In fact, one of the main emphases of the capability literature has been to bring back to economics the rich philosophical anthropology of Adam Smith, which seems to have been abandoned by the mainstream project.

Firstly, Sen argues that the different motivations, goals, values and reasons for choice of the human agent cannot be *all* described by the same preference ordering, as it is assumed in mainstream microeconomic theory (see Sen 1982). Furthermore, Sen defends that one cannot assume *a priori* that actual behaviour, which arises out of the joint effect of competing motivations, will display regularities that can be made consistent with, or described in terms of, choice driven by one preference ordering, as it is assumed in mainstream microeconomic theory (see Sen 1993). Sen also argues that even when a preference ordering is appropriate to describe behaviour, it will not necessarily be complete (see Sen 1997). Note that Sen's criticism not only undermines the neoclassical postulate of optimisation, but also the existence of exact regularities of behaviour that would enable the mainstream use of mathematical methods in order to predict actual behaviour.

Sen presents a conception of rationality which is different from the one that underpins mainstream economics. He views rationality as a power each

individual possesses (and does not continuously exercise), of subjecting goals and values to reasoned scrutiny (see Sen 2002). Rationality does not mean to obey to any preference ordering (as in mainstream economics), but to be able to question our preference orderings, goals and values. This is a much more general account of rationality. It is a notion of rationality where moral imperatives, social commitment and conventional rule-following, for example, are not reducible to optimisation, or any sort of behaviour that mimics the maximization of an objective mathematical function.

For Sen (2002), the social structure (including social rules and general norms of conduct) which conditions and facilitates human agency is irreducible to the interaction of agents that engage in optimising behaviour (or to the individual pursuit of "self-interest" or "utility"). Sen's writings point towards an ethical dimension of human behaviour where the latter occurs in a context of a complex social structure which is essential to understand social behaviour (see Sen 1987, 1997, 2002). Sen adds that these general rules of conduct reflect a sense of collective *identity*, irreducible to the atomised identity of the mainstream (and the neoclassical) representative agent.

The Capability Approach focuses on analysing poverty, well-being and advantage.

Heterodox Traditions have focused on developing socio-economic theories.

4. THE CAPABILITY APPROACH AND WELFARE ECONOMICS

Welfare economics, as described from the perspective of most mainstream economics research, is presented as a branch of mainstream microeconomics. Under this view of welfare economics, the discipline would then be subject to the same criticisms that are made to mainstream economics. But must welfare economics be confined to being just a branch of mainstream (micro)economics? Sen argues:

“Modern welfare economics has to go more and more in these pluralistic and heterodox directions, taking note of a variety of information in making the wide-ranging judgements that have to be made. Welfare economics is a major branch of ‘practical reason’. There are no good grounds for expecting that the diverse considerations that are characteristic of practical reason, discussed among others, by Aristotle, Kant, Smith, Hume, Marx, or Mill, can, in any sense, be avoided by taking refuge in some simple formula like the utilitarian maximization of utility sums, or a general reliance on optimality, or going by some mechanical criterion of technical efficiency or maximization of the gross national product.” (Sen, in Farina *et al*, 1996: 61)

In this passage, Sen points out to the need of transcending the narrow view of welfare economics as a branch of mainstream economic theory, in order to situate it as a major branch of ‘practical reason’ instead. The aim of

the Capability Approach is to broaden the scope of welfare economics beyond the narrow mainstream view to which the discipline is often confined.

There is much potential for the Capability Approach and the heterodox traditions to fruitfully complement each other. While the heterodox traditions have been mainly concerned with socio-economic theories, the Capability Approach focused on analysing poverty, well-being and advantage. But the Capability Approach lacks a more substantive account of socio-economic mechanisms through which well-being and advantage can be fostered, in the same way that the heterodox traditions could be fruitfully informed by the capability perspective on well-being and advantage. So there is scope for complementary cooperation between the Capability Approach and heterodox economics in this respect, for they are pitched at different levels of abstraction. Of course, some heterodox economists, like Karl Marx, addressed the problem of human flourishing in detail, but even here the conclusions reached are similar to the Capability Approach in many respects, as noted by Martha Nussbaum.

To end, a final note on historical origin and evolution. An important aspect when identifying a school of thought concerns its origins. The marginalists Jevons, Walras and Menger are often identified as the founders of neoclassical economics, and the latter

The Capability Approach belongs to a respected tradition of economics that pre-dates mainstream and neoclassical economics.

author is equally credited as the originator of Austrian economics. Thorstein Veblen is often acknowledged as the initiator of Institutional Economics (and played also a central role in the Evolutionary tradition). In the Neo-Ricardian, Marxian and post-Keynesian traditions, the origins of the approach can be easily inferred from the very name of these economic traditions (albeit Keynes acknowledges the classical economist Thomas Malthus as the main influence of his economic thought). The question one may ask then is in which (if any) tradition can the Capability Approach be situated. Also, can anything be inferred from its historical lineage concerning its greater affinity with the heterodox or the mainstream approach?

The Capability Approach falls within a tradition which existed before mainstream and neoclassical economics. The philosophical background of the Capability Approach is often found in Aristotle. So the philosophical origins of the Capability Approach are much different from the positivist perspective that inspires mainstream economics. But some of the other authors that Sen mentions above as major contributors to practical reason also played a role in the approach. The influence of Adam Smith, for example, is evident in the work of Sen, especially when addressing moral issues. To acknowledge this Aristotelian (and also Smithian) origins of the Capability Approach gives us another argument for situating the Capability Approach in opposition to

the mainstream view. For, as Sen notes, the writings of Aristotle and Smith on human agency and welfare (like those of Kant, Hume, Marx and Mill) can hardly be reduced to the neoclassical perspective, or to the mainstream approach which presently dominates economics.

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