HISTORY OF ECONOMIC ANALYSIS: METHODOLOGY

ECONOMICS:
A FORM OF “SELF-REFLECTION” OF CAPITALISM

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THREE PROBLEMS OF SOCIAL DESIGN:

1. THE ECONOMIC PROBLEM: “COORDINATION” (ALLOCATION AND CAPITAL ACCUMULATION)

2. THE ETHICAL PROBLEM: PROTECTING INDIVIDUAL FREEDOM

3. THE SOCIAL PROBLEM OF “ORDER”: INVISIBLE HAND/SOCIAL CONTRACT
1. **THE COORDINATION PROBLEM**

THREE VARIANTS:

1. **Synchronic**: Coordination in a **static** setting: planned investment and savings equality (*static equilibrium*)

2. **Diachronic**: Coordination in a changing setting (*comparative static* or “*shifting*” equilibrium)

3. **Dynamic Order**: Coordination in historical time; emergence of “order” (the “Mecca of the economist”: *long run capital accumulation problem in a dynamic setting*)
### MODELS OF THE MARKET SOCIETY
(Schumpeter 1954: 565)

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<thead>
<tr>
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<th>“HITCHLESS”</th>
<th>“HITCHBOUND”</th>
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</thead>
<tbody>
<tr>
<td><strong>THEORETICAL SYSTEM</strong></td>
<td>Closed</td>
<td>Open</td>
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<tr>
<td><strong>METHOD</strong></td>
<td>Static/ Comparative Static</td>
<td>Comparative Static/ Dynamic</td>
</tr>
<tr>
<td><strong>ORDER</strong></td>
<td>Spontaneous (Efficient)</td>
<td>Evolutionary (Inefficient)</td>
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<tr>
<td><strong>SOURCE OF INSTABILITY</strong></td>
<td>External</td>
<td>Internal</td>
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### STATIC VS DYNAMIC ANALYSIS

**Foster (2000), & Schumpeter (2005)**

<table>
<thead>
<tr>
<th>CHANGE</th>
<th>STATIC/COMPARATIVE STATIC</th>
<th>DYNAMIC/EVOLUTIONARY</th>
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<tbody>
<tr>
<td>Causal, quantitative: Functional, Linear, Reversible: Many-to-one-mapping</td>
<td>Development, novelty Adaptive, Non-linear, Irreversible One-to-many-mapping/Bifurcations</td>
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<tr>
<th>EQUILIBRIUM</th>
<th>Newtonian: Balance of forces Disequilibrium</th>
<th>Thermodynamic: Absence of structural change Nonequilibrium</th>
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<tbody>
<tr>
<td>ORDER</td>
<td>Spontaneous Stable Optimization</td>
<td>Self-Organized Unstable/Dissipative Routines: “Business as usual”</td>
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<tr>
<td>EVOLUTIONARY PROCESS</td>
<td>Natural Selection (uncovering “tacit knowledge”) Definite, determined, and efficient outcomes Invisible Hand</td>
<td>Random Mutation (Innovation) Emergent, indeterminate, and unknown outcomes Evolutionary Hand</td>
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2. THE PROBLEM OF INDIVIDUAL FREEDOM

Strains on the Modern “Identity”
(Taylor 1985: 274-278; Ertürk, 1999)

1. The idea of equality vs. actual inequalities/injustice created in the market,

2. Freedom, personal autonomy/independence, the “efficacy” to transform the world vs. objective dependence to the productive machinery → becoming a functional unit in the “Iron Cage,”

3. PROBLEM OF ORDER:

Institutional “Fault Lines” of the Market Society:

1. “Economic” vs. “Political” Spheres: The Market vs. the “Rest of the Society”


3. The “Double Movement”: Extension of the Market vs. Societal (Protectionist) Countermovement
Two versions of Unintended Consequences as a Mechanism of Order:

1. “Invisible Hand” (Harmonious order): A way of social harmony—social contract theories: emphasizing the optimal order; basically “individualist” social theory. “Social Atomism” (Hayek, among others, as a representative)

**Danger:** Emphasizes “free will”, but paints itself into the corner of functionalism, thereby negating the idea of human freedom.

2. “Evolutionary Hand” (Non-efficient Order): Emphasizing creation and reproduction of the system/society etc. Allows imperfections and suboptimalities. Against Social Atomism (Polanyi, Marx and Schumpeter as representatives).

**Danger:** May lead to an overemphasis on necessity, processes “behind the back of individuals”; not allowing the “free will”.
CRITIQUES OF CAPITALISM


B. Economic Efficiency vs. Social Justice (Keynes, Utopian Socialism),

C. Coordination Failure: Say's Law (Malthus, Keynes); Periodic Fluctuations & Crises (Schumpeter, Marx, Post-Keynesian)