

Review of Varoufakis' and Arnsperger's *What Is Neoclassical Economics?*

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[Varoufakis and Arnsperger](#) identify three “axioms” that define neoclassical economics. This is a misuse of the word unless those who identify themselves as neoclassical are actually deducing theorems from these axioms and/or that their theory can be reproduced in this way. Deduction is a method for creating new theory, not an expository technique for describing theories. “Defining characteristics” would be a better term, though on the first two Varoufakis and Arnsperger back off and admit that the characteristic only sometimes applies. But then, in the summary section, “three axioms, one neoclassical economics,” they are back to very strong statements about all three characteristics fully defining neoclassical economics. Observe:

It is hard to imagine how any standardly trained economist could deny that her theoretical practices digress from the three methodological moves mentioned above... The bottom line, then, is clear: despite all denials, there is such a thing as a body of social theory that subscribes to the three meta-axioms above and which we can legitimately, for want of a better term, label neoclassical.

Why their summary paragraph says “meta-axiom” while the preceding text said “axiom” goes unexplained. I will here present an abridgement of their three defining characteristics:

1) Methodological Individualism: *“While it is true that mainstream economists have, during the last few decades, acknowledged that the agent is a creature of her social context, and thus that social structure and individual agency are messily intertwined, their models retain the distinction and place the burden of explanation on the individual... the explanatory trajectory remains one that begins from the agent and maps, unidirectionally, onto the social structure.”*

2) Methodological Instrumentalism: *“All behaviour is preference-driven or, more precisely, it is to be understood as a means for maximising preference-satisfaction. Preference is given, current, fully determining, and strictly separate from both belief (which simply helps the agent predict uncertain future outcomes) and from the means employed... In view of the above [counter-examples], there is no future in criticisms of neoclassicism based on the charge that the latter must take for granted preferences which are either exogenous or independent of the agents' socio-economic relationships.”*

3) Methodological Equilibration: *“The reason for the axiomatic imposition of equilibrium is simple: it could not be otherwise! By this we mean that neoclassicism cannot demonstrate that equilibrium would emerge as a natural consequence of agents’ instrumentally rational choices... In General Equilibrium Theory its best practitioners state it quite categorically: convergence to some general equilibrium can only be proven in highly restrictive special cases. More generally, it is not just difficult to demonstrate that a system of theoretical markets will generate an equilibrium in each market, on the basis of rational acts on behalf of buyers and sellers; rather, it is impossible!”*

The first two are not defining characteristics of neoclassical economics; they are defining characteristics of free-market economics. What else does it mean to study a free market than to assume that behavior is preference driven and that the people have their own preferences? The reason that these two characteristics apply only some of the time is because only some economists are studying the free market. There are also economists studying a command economy where only Great Leader’s preferences matter and the explanatory trajectory is unidirectional from the social structure (soldiers and bureaucrats) to the agent, who must obey Great Leader’s commands if he wants to stay out of prison. I am not one of those economists.

Since I am a free-market economist, [Axiomatic Theory of Economics](#) conforms to the first two defining characteristics. This should be obvious since all three of my axioms describe an individual’s value scale and it is through the Central Limit Theorem that the value scales of many such individuals merge to create a social structure; there is nothing about Great Leader imposing his own values on anybody. Varoufakis’ and Arnsperger’s third defining characteristic is just a description of Gerard Debreu’s general equilibrium theory. So, basically, Varoufakis and Arnsperger are defining neoclassical economics to be general equilibrium theory with an “impossible” voluntary convergence; they exclude Soviet-style five-year plans that used computer models to find a general equilibrium and then used violence to force the people into convergence. But I am not a follower of Debreu – I have [my own axiom set](#) which has nothing to do with general equilibrium – so I am not neoclassical by Varoufakis’ and Arnsperger’s definition. Since I have never described myself as such, this is not an unexpected result.

How many other economists today have their own axiom set? Only one: Egmont Kakarot-Handtke. But he is not a free-market economist because he fails to meet the first two defining characteristics. All that talk about boosting structural axioms and rejecting behavioral axioms is just another way of saying that, for him, the explanatory trajectory is unidirectional from the social structure to the agent. He now has dozens of near-identical papers on the internet that all begin with a very emphatic statement that behavioral assumptions do not work, though he never says why; apparently his strategy is just to say it often enough and forcefully enough that people will begin to accept it. It really would have clarified things for economists who were getting pelted with these monthly internet postings if Kakarot-Handtke had just said straight out, “the explanatory trajectory is unidirectional from the social structure to the agent.”

So does this mean that all neoclassical economists are using Debreu's axiom set? Yes, but only in the sense that all red-headed Eskimos have ESP. In logic, any statement about all of the elements in the null set is a true statement. Varoufakis and Arnsperger readily admit that they are talking about the null set in the very first paragraph of their paper, but then they abruptly announce – without any evidence – that all these people are lying. Observe:

There is nothing more frustrating for critics of neoclassical economics than the argument that neoclassical economics is a figment of their imagination; that, simply, there is scientific economics and there is speculative hand-waiving (by those who have never really grasped the finer points of mainstream economic theory). In this sense, neoclassicism resembles racism: while ever present and dominant, no one claims to be guided by it. Critics must find a clear definition of neoclassicism if only in order to liberate neoclassical economists from the temptation to barricade themselves behind infantile arguments viz. the non-existence of their school of thought. Then, the good debate may begin.

The racism analogy is a good one because – outside of Jesse Jackson's office – nobody actually believes that racism is ever-present and dominant. Millions of White people and Black people get along just fine; it is only those like Jackson, who is making money off this trumped up issue, that keep it alive. So the analogy is a good one *against* Varoufakis and Arnsperger.

How can we prove that neoclassicism is the null set; that there is nobody who self-identifies as neoclassical and/or believes in Gerard Debreu's general equilibrium theory? Easy! Just create a blog with an inflammatory title like "Axiomatic Economics – Total Horseshit" that falsely identifies Gerard Debreu with the axiomatic method as though he invented it, that falsely claims that he is the only economist to ever use the axiomatic method, and rightly points out that general equilibrium is a crock of [Lars Syll's favorite word]. If neoclassicism is not the null set – if there is even one economist who meets all three of Varoufakis' and Arnsperger's defining characteristics – then that man is certain to show up and attempt to defend Debreu.

[Such a test has already been conducted.](#)

Take note that zero neoclassic economists showed up to defend Debreu. This is because there are none; nobody meets all three of Varoufakis' and Arnsperger's defining characteristics. Neoclassicism is the null set. Any teenager familiar with internet discourse can easily see what the economists are willfully blind to: If there are exactly zero people on the internet defending Debreu, then he does not represent the mainstream. There are only two extant economists – neither of them neoclassical – who employ the axiomatic method and only one of them is a free-market economist. [That would be me.](#) If Varoufakis and Arnsperger want a good debate, then the *World Economics Association* should stop blacklisting me. But apparently it is easier to beat up on some old dead guy who has no living defenders. [Since 1974](#) nobody has believed that people voluntarily converge to a general equilibrium, and by 1989 the Russians realized that violence cannot force convergence. Yet, 25 years later, economists have not tired of sticking their knives in Debreu's moldering corpse, "killing" him again and again and again.