The Canon of Economics *By Fred Foldvary*

A "canon" is a set of items which are regarded by the chiefs of a field to be the accepted elements of the domain. Every religion, for example, has a canon of accepted ideas and documents such as the established books of the Bible. Every scientific field has a canon of propositions and facts accepted as genuine by the experts and by those in authority such as editors of the major journals and most members of the departments of the prominent universities.


Pictured: Fred Foldvary

The canon of economics consists of the propositions, methods, and historical facts accepted as true and applicable by most scholarly economists. This canon appears in textbooks and in the articles of the prominent journals. The ideas and methods outside the canon are referred to as heterodox economics, in contrast to the mainstream or orthodox canon. There have been articles and organizations about the mainstream and alternative canons, but they have not laid out what the canons consist of. Here is my attempt.

The canon of orthodox neoclassical economics consists of 1) supply and demand; 2) graphical curves of equal utility, inputs, and output; 3) marginal analysis (additional amounts of utility, inputs, outputs); 4) the factors or input variables of capital goods and labor; 5) the price level; 6) equations of production and utility; 7) the government-influenced money supply and the market-based velocity of the circulation of money; 8) economic and accounting profit; 9) market failure and government corrections; 10) equilibrium; 11) maximizing and minimizing within constraints; 12) the premises of subjective values, self-interest, scarcity, unlimited desires, and the uncertainty of the future; 13) the "time preference" for present day good relative to future goods; 14) the trade-off between goods and leisure; 15) the trade-off between equity and efficiency; 16) diminishing marginal utility; 17) diminishing marginal products; 18) theory from mathematical models; 19) econometric testing of hypotheses; 20) the producer and consumer surplus.

Neoclassical economics is divided into several sub-schools for macroeconomic theory. The major schools and their canons are:

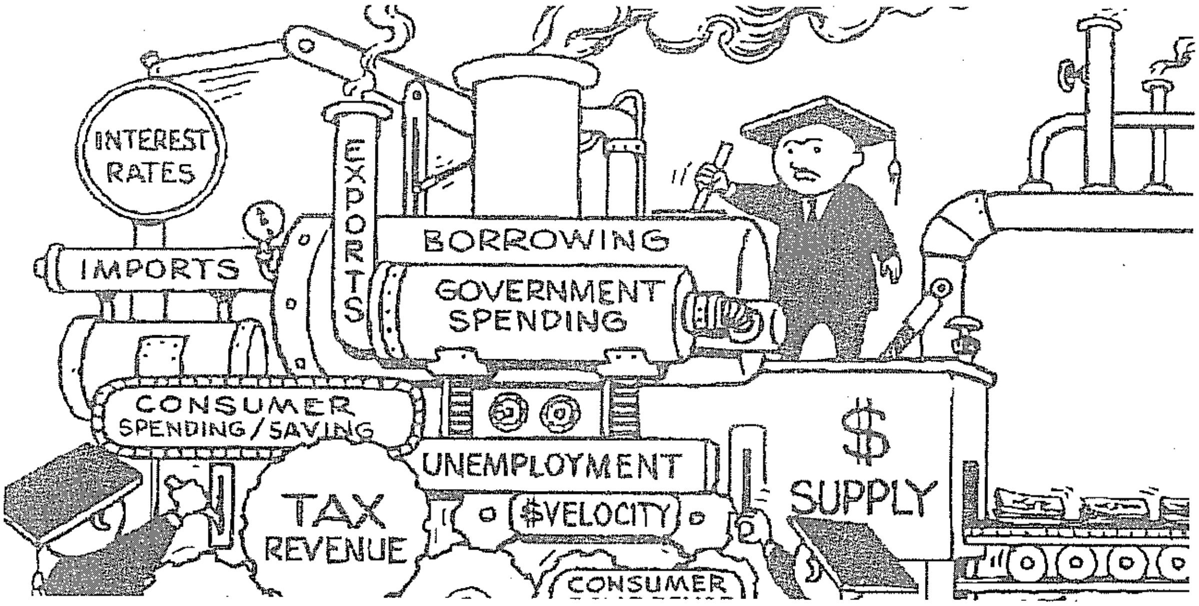
1) Keynesian or demand-side economics, with the canons of the consumption function, spending multiplier, and the determination of output from autonomous spending and the multiplier.

2) The Monetarist school, its canon being the equation of exchange: Money times velocity equals the price level times real output, hence monetary inflation generally causes price inflation.

3) The New Classical school with its canon of rational expectations, which makes inflationary policy ineffective.

4) The New Keynesian school with its canon of wages, prices, and interest rates stuck above equilibrium; it accepts New-Classical rational expectations but claims that contracts and other rigid conditions make expansionary policy effective in increasing output.

The heterodox Austrian economic school of thought accepts these elements of neoclassical economics:1, 3, 4, 7, 8, 12, 13, 14, 15, 16, 17, 20. Austrians reject the excessive emphasis on 6, 9, 10, 11, 18, 19. The canons of the Austrian school that have not been absorbed into the mainstream are: 1) the time and interest-based structure of capital goods; 2) market dynamics rather than equilibrium; 3) dispersed knowledge; 4) discrete marginal utility based on diminishing importance; 4) axiomatic-deductive theory (praxeology); 5) entrepreneurship as both



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discovery and creative reconstruction; 6) free-market money and banking; 7) roundabout production; 8) the market as spontaneous order; 9) the failure of government intervention; 10) the evenly rotating economy that illustrates the role of entrepreneurship in the real world of uncertainty and change.

The Marxist school canon includes 1) class struggle, 2) the labor theory of value; 3) the surplus from labor taken by the capitalists who dominate labor; 4) benefits from socializing wealth.

The Georgist or geo-classical school has these canons: 1) land and its rent as major elements of the economy; 2) the margin of production as the least productive land in use; 3) land speculation and the movement of the margin raising rent and reducing wages; 4) the creation of land rentals from public goods; 5) depressions resulting from land-value bubbles; 6) economic effects of replacing market-hampering market-hampering taxes and subsidies with land-value taxation; 7) the surplus as land rent; 8) the ethics of labor and land; 9) harmony between equity and efficiency, and 10) the social behavioral effects of economic justice.

There is also a school of thought called "public choice," which has been accepted by neoclassical economics as well as by other schools, as a side branch. Its canon includes: 1) self-interest in politics; 2) the rational ignorance of voters; 3) transfer-seeking and getting due to concentrated interests and spread-out costs; 4) vote trading by representatives; 5) bureaucrats maximizing their power and comfort; 6) the primacy of the median voter; 7) constitutional versus operational choice; 8) clubs that provide collective goods to their members.

The classical economics canon, before it turned neoclassical, included these elements: 1) Say's law, that production pays factors that enable effective demand; 2) the division of labor; 3) economic growth from unhampered production and free trade; 4) the margin of production as the least productive land in use; 5) population growth pushing the margin to less productive land; 6) the three factors of production as land, labor, and capital goods.

A problem in economics today is that each canon excludes the useful elements of other schools. Economics needs a universalist canon that integrates the best elements from all schools of thought. However, economists disagree on what the canon should be. In my judgment, the most glaring omission in the mainstream canon is the neglect of the Austrian-school time-structure of capital goods, its neglect of the creation of land rent by public goods, and its neglect of the benefits of a prosperity tax shift, the replacement of market-hampering taxes with market-enhancing payments of land rent and pollution charges.