

# Duncan, Anwar, and the New School Political Economy Tradition

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*In this comment piece, Professor Ramaa Vasudevan reflects upon the New School political economy tradition through the work of Duncan Foley and Anwar Shaikh.*

## I. Introduction

The retirement of Duncan Foley and Anwar Shaikh marks the passing of an era at the New School. They have helped build and foster the distinctive New School political economy tradition. The mission of the department “to put what Robert Heilbroner called the worldly philosophy—informed, critical, and passionate investigation of the economic foundations of contemporary society—at the heart of the educational and research enterprise” reflects this tradition. Both Anwar and Duncan have also inspired and mentored generations of economists, hungry for rigorous, alternative theoretical frameworks that go beyond the mere critique of the neoclassical method, to pose a powerful critique of the capitalist economic system itself. Having had the privilege of doing my dissertation research under the mentorship of Duncan Foley, Anwar Shaikh and Lance Taylor at NSSR, this distinctive New School tradition has been a formative and transformative influence in my own intellectual life.

The domain of heterodox economics is sometimes dismissed as a motley grab-bag of theoretical frameworks and models defined more in terms of what they critique, rather than for what they offer as a coherent comprehensive alternative model. But there is a common ground—a line that can be traced from the Classics through Marx to Harrod, from Marx through Kalecki to Keynes, or from Marx through Keynes to Minsky. The connections between these analytical approaches help clarify a coherent, overarching theoretical structure while elaborating the different conditions/closures that inform the different models. This is the terrain inhabited by the New School political economy tradition, where the path to an alternative economic framework rooted in Classical, Marxian and Keynesian traditions and intentionally critical of capitalist economic institutions has been paved. It demands engagement with a wide range of approaches, contextualizing these in the history of the discipline, while turning the spotlight on where the different approaches stand with respect to each other—complementarities and affinities and also the points where they diverge. The New School tradition addresses a critical gap in the discipline—keeping alive and advancing ideas and approaches that are not pursued elsewhere, doing so not just with the appropriate, but with the best available techniques and methods, providing a space for the pluralistic pursuit of an alternative progressive research agenda.

There is, of course, no ‘royal road’ to the project of constructing a progressive alternative paradigm of economic analysis. Foley (1989, 5) has underscored that this project “involves developing a set of linked questions at all levels of abstraction that call into question the performance of capitalist economic institutions and search out feasible alternatives”. And as Anwar emphasizes, “the difference between classical and neoclassical approaches is not about abstraction itself, but rather about the method of abstraction” (Shaikh 2016, 540).

Armed with a spectacularly rich and deep understanding of the history of economic thought and the particular analytical insights of the Classics, Marx, and Keynes into the workings of the capitalist economic system, both Anwar and Duncan have been in the metaphorical trenches, creating the foundations for such a progressive analytical alternative to neoclassical orthodoxy, while continuously engaging with the new frontiers of economic research. I could hardly do justice to the scale and scope of their contributions! Instead let me use this space to focus on some key aspects of their methodological approach that are of crucial significance for the project of creating a robust, rigorous, and relevant framework for economic analysis.

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## II. Capitalism as a self-organizing complex, adaptive, systems

Duncan and Anwar have demonstrated the remarkable capacity of the long-period method of Classical Marxian traditions to comprehend capitalism as a self-organized adaptive complex system (Foley 2003, 2011; Shaikh 1980, 2016). The abstraction of the long-period steady-state plays a pivotal analytical role, within the Classical-Marxian methodological framework, in explaining the observable patterns and regularities that emerge from the turbulent process of ceaseless fluctuations around a gravitational center. The emergent regularities or central tendencies of the capitalist dynamics are far removed from the more static conception of equilibrium within the general equilibrium framework. Competition is understood to be the mechanism through which this complex system regulates itself. Order is achieved through disorder and continual disruption within the constituent parts of the system. Thus, natural prices emerging in decentralized markets are governed by the mechanisms of self-organization of the social division of labor within the system of commodity production.

This analytical framework clarifies how non-equilibrium at the microscopic level sustains and reproduces recognizable structures and patterns over long periods of time. The underlying conception of competition as a mode of regulating the complex capitalist economy, is in sharp contrast to the conception of perfect competition as a harmonious process where prices function as simple carriers of information and signals. This methodological approach is a fertile and productive path to understanding the concrete open-ended evolutionary process of capitalist development. Anwar and Duncan have reformulated the Classical-Marxian method in a highly sophisticated modernist framework, including the application of tools from statistical mechanics and thermodynamics. This framework has demonstrated the relevance and resilience of the analytical method as well as its tremendous explanatory power in comprehending capitalist dynamics, and providing a foundation for building a coherent, comprehensive, theoretical edifice as a counterpoint to neoclassical orthodoxy. Fine (2023) in his contribution to this issue has highlighted the critical role of mathematical reasoning in advancing and anchoring heterodox political economy. Duncan and Anwar show that it is not enough to merely reclaim tools and techniques from the mainstream, they need to be repurposed towards a rigorous, progressive critique of the capitalist economy.

## III. Micro-founding Macroanalysis

The conception of the economy as a self-organizing, adaptive, complex system also points to a robust alternative micro-foundation for macro-economic analysis. In this framework, aggregate tendencies and patterns are not a simple reflection of the tendencies or behavior of component parts but arise as emergent properties from the micro interactions. There is a clear path to modeling the micro-behavior underlying emergent macro-tendencies without conflating or reducing macroeconomic relations to micro-foundations and the parameters governing atomistic individual behavior a la Lucas's critique.

Anwar has raised the point that very different theories decision-making at the micro-level can be wielded to explain macroeconomic trends, most spectacularly with his early work on the humbug production function (Shaikh 1974). He shows that the correspondence of a particular explanation of micro-processes with macro-phenomena is not enough basis for its validation. Validation has to be found instead in the real world. Highlighting how externalities pervade Keynes' arguments (for instance how spending by a firm or household relaxes liquidity constraint on other firms and households or the financial beauty contest), Duncan has pointed to another fruitful path towards formulating an alternative micro-foundation of Keynesian macroeconomics in terms of information economics, social coordination failures and equilibrium in the context of externalities (Foley 2014). The notion that factors driving individual actions can militate against the achievement of socially rational ends are of course not alien within the Classical-Marxian framework (for instance Marx's analysis of how the pursuit of profits by capitalists propels the tendency for the profitability to decline). Anwar also suggests that Keynes was implicitly grappling with a notion of competition more akin to Classical-Marxian conception in that it was not based on market-clearing but balancing through trial and error (Shaikh 2016).

The New School tradition is staking out an important space in the discipline drawing on informational theory and thermodynamics, to build an alternative conception of the capitalist economy as self-regulating complex adaptive systems—for instance by using methods of stochastic analysis to model

the distribution of labor and capital incomes as a drift-diffusion process or to explore the implications of informational entropy in theorizing economic behavior.

#### IV. Understanding Capitalist Dynamics

The analysis of profit-driven capitalist dynamics is the other pivotal strand of the New School political economy tradition. Duncan’s work on growth, distribution, and circuits of capital and Anwar’s contributions on competition, accumulation, and crisis provide the foundation for building this tradition.

While the critique of the aggregate production function during the Capital controversy was definitive, it has continued to be the backbone of neoclassical growth models in the tradition of Solow. The framework developed in *Growth and Distribution* provided a fertile starting point for alternative theoretical models that eschew the aggregate production function (Foley and Michl 1999; Foley, Michl and Tavani 2019). The revival of interest in endogenous technical change and their incorporation in neoclassical growth models points to the abiding resonance of Classical-Marxian themes of induced technical change and distributional dynamics and the continued relevance of this alternative analytical framework.

Duncan’s elaboration of the circuit of capital model, equally significant to other contributions, presents a formalization of Marx’s analysis of the capitalist system as an ever-expanding circular flow of commodities and money (Foley 1986, 2001). This approach provides another alternative to the production function as the basis for analyzing capital accumulation, treating capital as stocks of value tied up in capitalist production due time lags in production, realization, and financing of investment, rather than as a distinct productive factor. Apart from providing stock-flow consistent representation that integrates monetary and financial relationships into the analysis of production and accumulation, this framework has the added analytical edge of being derived concretely from a theory of class exploitation.

If this framework makes explicit the connections between firm’s balance sheets, income statements and sectoral accounts and the theoretical constructs of the model, Shaikh focuses on the overlooked correspondence between Classical (and Marxian) analytical categories and modern national accounts, mapping between classical categories (like surplus product or circulating capital) on to modern national accounts. *Measuring the Wealth of Nations* laid out a path to productively using national income accounts to operationalize an alternative analytical framework for explaining capitalist dynamics (Shaikh and Tonak 1997). Anwar’s work on macro-dynamics shows how the endogeneity of business savings allows a reconciliation of profitability driven investment and the conceptualization of growth dynamics as wanderings around a path, in response to feedbacks and interactions between expected and actual profit rates, demand and supply, output and capacity (Shaikh 1980). *Capitalism* brings this alternative theoretical framework to bear in explaining the turbulent cyclical dynamics shaping the path of capital accumulation and shows how these rhythms are shaped by powerful intrinsic tendencies that transcend historical expressions and contingencies (Shaikh 2016).

Along with the definitive legacy of Lance Taylor in building a comprehensive structuralist macroeconomic framework incorporating both demand distributional dynamics, the work of Duncan and Anwar has laid the foundation for a rigorous alternative macroeconomics that is much better equipped to explain the cyclical dynamics of capital accumulation than the mainstream paradigm. This framework pays close attention to fundamental contradictions at the heart of capitalism and how they circumscribe and condition the space for policy and political intervention.

#### V. The New School tradition

While there is a common core to the analytical coherent alternative foundation embodied in the work of Duncan and Anwar, I am also struck by the distinct philosophical paths by which they came to their understanding. Anwar has always stressed the pitfalls of theoretical constructs based on departures from the “ideal” assumptions of the orthodox neoclassical model—externalities, strategic interactions, informational asymmetry—where deviations from the ideal are absorbed as special case extensions or explained in terms of “imperfections” of the concrete real world. He categorically rejected such a procedure as a starting point (Shaikh 2016). Duncan, however, has urged being “methodologically expedient and catholic in our tastes” since “the luxury of a certain distance from the methodological scrimmage that is life and death to the mainstream economist” affords some space to heterodox economists to “become connoisseurs of method and have the fun of mixing insights from very different schools of thought”

(Foley 1989, 6). For Duncan, mainstream economics also serves as a model for the construction of an alternative that is capable in an analogous manner of functioning at all levels of abstractions (Foley 1989).

And so Anwar saw the idealization of hyper-rational agents, which in his characteristically colorful prose he deplored as “bizarre as a description of economic behavior and insulting as a cultural ideal”, as a methodological dead end (Shaikh 2016, 747), while Duncan could be open to the assumption of rational expectations, despite its apologetic and idealist roots if it “allows us to make a key point about the stability or social rationality of macroeconomic equilibrium” (Foley 1989, 6). It is a testimony of their uncompromising analytical rigor that they came to such a similar theoretical perspective from such distinct routes!

The significance of the path-breaking work of both Anwar and Duncan to build a coherent alternative analytical foundation for economic analysis also lies in the amenability of this theoretical framework to be taken to the empirical data—showing not only how the system actually works, but also the ways that it can be measured. This has opened the path to a vibrant and viable research program of the empirical investigation of the evolution and transformation of capitalism. I cannot overstate the importance of this distinctive aspect of the New School political economy tradition for invigorating an alternative analytical paradigm and informing progressive policy.

But beyond the analytical rigor and coherence of their theoretical formulation, what is most inspiring about Duncan and Anwar is the strong moral compass that guides their dissident research agenda. For both, the pursuit of economics is inextricably embedded in philosophical world views—in questions of power and conflict, justice and fairness. I am sure the path of dissidence they chose was lonely, and undoubtedly involved sacrifice. But their scholarship and mentorship shines a bright light on the path forward for students and scholars, not just within US academia and equally those outside academia (in activism and policy work) and outside the US, who are inspired by the distinctive New School tradition. Hopefully, we will live up to this legacy!

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