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## **Towards an Epistemological Foundation for Social and Solidarity Economy**

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### **Potential and Limits of Social and Solidarity Economy**

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## ABSTRACT

In the absence of epistemological and conceptual advances with strong ontological foundations, the author argues, SSE, a science-in-the-making, can not go very far in framing discourses and in engaging with the bigger picture, as an “alternative” to the crises-ridden “dominant economic paradigm”. The Orthodox economics, with its ontological construct of the *homo economicus* and logical positivist epistemology, severely constrains our cognitive abilities to imagine economic alternatives, through which local communities rebuild their fractured lives, regenerate their local economies, restore their social and ethical values, and carve out their own democratic space and a more sustainable and better future, in short, put a “moral brake on capitalism”. Thus, the context today holds great promise for an *epistemological revolution* to construct a coherent theoretical framework for SSE with a strong explanatory power, which would enable us to gain the confidence to think of SSE more boldly and to develop SSE as a new scientific theory for explaining, organizing and developing well-governed sustainable institutional practices with a fundamental change in the *intent* and *content* of our economic life.

## 20<sup>th</sup>-century capitalism is failing the 21<sup>st</sup>-century society

“20<sup>th</sup>-century capitalism is failing the 21<sup>st</sup>-century society”, wrote Miliband (2012) in the *New York Times*, summing up the concern over the future of global capitalism. The evolving context of the crises-ridden global capitalism, as well as the five mega challenges of the 21<sup>st</sup> century – namely, i. the green challenge, ii. the inclusive challenge, iii. the wellbeing challenge, iv. the moral challenge, and v. the governance challenge – created by the “flawed” model of the economy has increasingly given rise to a questioning of the ability of this paradigm to create “the future we want”. Therefore, to meet the mega challenges of the 21<sup>st</sup> century society, we must search for answers beyond the capitalist-society divide, and the State-Market dichotomy. As the great lessons of the 20<sup>th</sup> century teach us, financial capitalism, which is by nature “parasitic”, can no longer be the driving force in a democratic society. The collapse of financial capitalism, Polychroniou (2012) argues, will “encourage the development of alternative financial systems . . . for redesigning the financial universe . . . where the public good, not profit taking, is the principal driver . . . whose focus is the longer term, and who might also care about the planet and the communities they live in” (p.5). Thus, the failure of the hegemonic global capitalist economic system also breeds opportunities to think and work on alternative visions of a good society and build pathways for that – opportunities to work on a “paradigm of reversals”. As David Korten (2009) asserts, this financial crisis (of 2008) is “our best chance to build a New Economy” . . . a new economy “that puts money and business in the service of people and the planet”, and not the other way round; to build what Eisler (2007) calls “The Real Wealth of Nations” by creating a “Caring Economics” beyond Capitalism and Socialism. She rightly insists that “[r]ather than trying to just patch up a system that isn’t working, let’s use our economic crisis to work for a system that really meets human needs” (2009). Similarly Bruce Jennings emphatically argues, “[i]ncremental reforms and tinkering with the plumbing of our political economy will not suffice” (2011:4). As Alexis de Tocqueville, the nineteenth century philosopher, had argued, a *new science* of economics is needed for a new world (Swedberg 2009: 5).

## The deeper issues are epistemological

The current proposals which are advanced as solutions to the crisis fall far too short, leaving the deep conflicts of values and interests at the core of the current system untouched. Therefore, we need to deepen these debates, question the very foundation of the present paradigm and the economic logic that drives it. The crisis is not just economic; it is *systemic* – ideological, institutional and epistemological – with its deeper roots in the failures of orthodox neoclassical economics. For a long time in the past, but more substantially in the 20<sup>th</sup> century, we were engaged in an ideological war between *laissez faire* and *dirigisme*. With the fall of the Berlin Wall in 1989, market fundamentalists celebrated the “ultimate” victory of the Wall Street model of the economy. As a graffiti on the erstwhile Berlin Wall, that captured this *zeitgeist*, put it: *Kapitalismus siegt*. The debate between etatists and corporatists, it was believed, was over and we started to prepare for the new century with the “New Enlightenment” (profit as the road to prosperity), with the promise of globalization looming large. But, barely twenty years on, in 2008, had the Wall Street become bankrupt and collapsed. The financial crisis, which led to the most severe global recession since the Great Depression, damaged the global economy, and brought it under terrible stress with “cracks in the system”. The Wall Street failed yet once again. Voices of “We, the 99%” gradually become louder, echoing the claim made by Naomi Klein (2008), the author of *The Shock Doctrine*, that the crash on the Wall Street should be for neo-liberalism what the fall of the Berlin Wall was for Communism.

Therefore, alternative visions for another economy, in the spirit of the slogan from the World Social Forum – *um outro mundo é possível* – will have to be developed from the wreckage of the orthodox economics. What is imperative today is an *epistemological revolution*, as part of a larger cultural revolution – a restructuring of values – to stimulate, support, strengthen, scale-up, and sustain innovations in alternative forms of economic life. Already we can see the contours of another economy in the shape of new communitarian movements through which local communities resist and respond to the multiple crises of global capitalism, and innovate alternatives to meet their economic needs within their local solidarity-based associational space. At the heart of these diverse forms of economic expression, lumped together under the rubric of Social and Solidarity Economy (SSE), is the attempt to create an alternative communitarian response to the growing problems and gaps in meeting citizen needs created especially by recent developments in the *market economy* (globalization of the market) and in the *political economy* (decline of the welfare state). More importantly, this rich mosaic of SSE landscape reflects how communities create these alternative pathways by walking.

Not only do they ensure social protection, build trust and group cohesion, they also develop an approach to the economy with the factor “C” at its center – *co-operation, community spirit, and collective initiative* – which does present an epistemological challenge to the “imperial” orthodox economics at its core (Dash 2005). The orthodox economics has a very strong and well designed structure of “epistemological recycling” anchored in the curriculums, and the business and economics textbooks. Thus, for example, while Social economy has grown significantly in the last decades, in terms of their contribution to the Canadian economy, Schugurensky and McCollum of the Southern Ontario Social economy Research Alliance, on the basis of their survey, reported that the “Other” economy is missing in the curriculum and textbooks of business and economics. This omission reflects the total monopoly of the paradigm of the “single bottom line of profit”, through control of the process of reproduction of our knowledge system, which can not explain models that use different goals, incentives, processes and structures (2009). What is needed, therefore, is an *epistemological revolution* and theoretical innovations to provide nurturing support to these scattered fragile practices for their vitality and growth, expansion and sustainability. Such an epistemological revolution, as Braidotti (1999) says, involves ontological and methodological creativity in transforming the “social imaginary” and “a new understanding of the human subject as embedded” within a specific locally-grounded reality and relationship-based re-frame. In the context of feminist economics, Diane Elson emphasizes on “transforming conceptual tools” as the engine of a “democratic transformation of public debate and policy process” (1998: 156).

### **The queen has turned dismal**

We realize today, more than ever, that some of the “truths” on which neoliberal economists base their arguments are too naïve and “fatally flawed”. When theories are wrong, practice will be destructive. Therefore Moisés Naim (2006), editor of the influential *Foreign Policy* magazine, says: “When economists err in theory, people suffer in practice”, unfortunately, given the monopoly they have in policy regimes. There has been an enhanced debate in recent years, more particularly since the 2008 financial crisis, not only over the *moral quality* of the capitalist economy (Crouch, 2012), but also the *tyranny* of the orthodoxy in the profession of economics (Colander *et.al.* 2009; Freeman 2009). “Systemic failure”, as Freeman (2009) argues, “is no more an accident in a profession than it was in the banking system” (p.6). Therefore, the blame for the crisis should not only fall on the market participants, since this crisis also involves an ethical breakdown and a “moral hazard” in the economics profession. Thus, the crisis has also brought the orthodox neoclassical economics –

the intellectual and ideological home of the capitalist economic system – under intense criticism, for the crisis is symptomatic of a “systemic failure of the economics profession” (Colander *et. al.*, *op.cit.*). About thirty years ago George Stigler (1984), the Economics Nobel Laureate, called economics an “imperial science” and predicted that it was on its way to becoming the “queen” of the social sciences. But, today many would call it a “dismal” science, and even a “failed” science. The queen has turned dismal (Mäki, 1999). Economic theory is broken. Colander *et. al.* lament that “[i]n our hour of greatest need, societies around the world are left to grope in dark without a theory” (*op.cit.*, p.2).

But, the intellectual crisis of the discipline did not start with the recent crisis in the economy. As Tony Lawson (2012) argues, the crisis just made more people aware of the intellectual failings of the discipline: “One positive consequence of the ongoing economic crisis is that the intellectual malaise of the modern academic discipline of economics is becoming ever more widely recognized” (p.3) Standard economics has been passing through a period of “unrest”, as many of its dogmas do not hold in reality and, are thus increasingly being challenged. There is something fundamentally *wrong* in economic orthodoxy. As a result, a sense of unease has been recently growing among the economists. The emergence of the post-autistic economics (PAE) movement, starting with the student revolt in France in 2000 against the lack of pluralism in economics and the uncontrolled use of mathematics as an “end in itself” in economic theory reflects the crisis in economics (Fullbrook 2003). The preference for mathematical technique and modeling over *real world* substance; the belief in the universality of the rational choice theory; the efficient market hypothesis; the instrumentally rational, utility maximizing, “separative self” (England 1993) underlying the concept of the *homo economicus*; the assumption of a “separate sphere” of the economic activity; that markets and hierarchies are alternative modes of coordination etc., all add up to a very *weak micro foundation* of this “hard” and “imperial science” – in fact, a colossus with feet of clay – with dubious methodological status, a preference for *doxa* over *episteme*, and “abstract” models *detached* from the substance of how the real world works. Economic theory is in disarray, because it is plagued by theory-practice inconsistencies. As Coyle sums up the critics, economics is crude and “too narrow in its focus, caring only about money; too dry and robotic in its view of the human nature; too reductionist in its methodology” (2007:2). Economics, therefore, is now a much contested discipline, as many “are worried about the increasing adoption of its suspiciously narrow and distorting worldviews as part of the questionable cultural trend of economisation, marketisation, monetisation and commodification of our social lives at large” (Mäki 2005 : 212). In the garb of a “hard” science, economics is not only empirically empty and intellectually bankrupt, but is also a dangerous cultural failure.

### **The immoral basis of “Eco-no-mics”**

In recent decades, as Kreps (1997) argues, there was a slippage in economics from the assumption of utility maximization to wealth maximization, and self-interest degenerated into explicit “greed” as the operational microeconomic assumption with claims to universality. Thus, morality is another significant element to help us understand the evolving neoclassical ontology. Originally, Adam Smith situated economics within his grand scheme of moral philosophy. Although some commentators raise the *Das Adam Smith Problem* to highlight the incompatibility between his *Theory of Moral Sentiments* (published in 1759, which claims that humans are motivated by altruism) and *The Wealth of Nations* (published in 1776, founded on the claim that humans are motivated by self-interest), a deeper analysis of Smith’s works does reveal the connection between economics and ethics and that they support each other. The first book sets out a moral system that provides a general framework for the economic realm, and that Smith did retain a great concern for morality

within his economics (Weinstein [2001] 2008; Young 1997; Fitzgibbons 1997). Some of the strongest moral criticisms of the existing society ever made are to be found in *The Wealth of Nations* (Alvey 1998). Even, John Stuart Mill, the advocate of a separate *science* of political economy and who did see some use of mathematics and formal methodology in social science, does present us with a moral science of economics, though his moral science is not as deep as Smith's. For him the usage of mathematics had to be within strict bounds, and he did not hold that political economy is value-free or that science and values are radically different (Alvey 1999). But during the twentieth century, and more so with the emergence of econometrics, economics drifted away from ethics, and from the moral legacy of Adam Smith. In the hands of the Chicago "imperialists", championing an ideology of greed, a mathematical science of economics came to be seen as the logical *alternative* to a moral science of economics. Mathematics won arrogantly the battle over morality in economics. (Alvey *op.cit.* p.25). The Nobel Economist Amartya Sen laments that the nature of economics 'has been substantially impoverished by the distance that has grown between economics and ethics' (1987:7).

The worst excess of neoclassical economics is the loss of "the moral minimum" from our social life. Economics has changed from being theory of our material subsistence to becoming a theory of human nature, with scarcity no longer rooted in material life, but rather in the human mind as function of infinite human desires driven by greed. This has brought us to the point of the ecological and social limits of expansionism. We are no longer living off the earth's revenue account; we are eating into its capital. Moral hazard, free riding, rent seeking, and creation of negative externalities – logical consequences of the "Rational Economic Man" model – has led to the breakdown of our social and moral health, while ecological overshoot poses a serious threat to the health of the planet and our wellbeing. A better economy requires a better economics.

### ***Homo economicus* – the anthropological monster**

Both neoclassical economic thinking and practice are locked up, to use Weber's language, in an "iron cage", which is the creation of its own epistemological and ontological constructions. At the root of the present economic system is to be found the *homo economicus* – the building block of this huge monolithic economic edifice, its micro foundation. The starting point for economic analysis in neoclassical economics is the individual, the *homo economicus* – anthropocentric, instrumentally (hyper) rational, atomistic and self-interested, utility maximizing, autonomous, economic actors. Emphasis on self-interest and maximization as prime movers of human action governed by the principle of competition strip the *homo economicus* – the ontologically cold and rational, calculative, instrumentally driven, atomistic man with a "separative self" – off any morality and substantive rationality, and create a *thin theory of human action* (Taylor 1988), which all add up to create conditions of dangerous social irresponsibility and fail as a means to provide for higher *human* needs for enriching, meaningful, supportive and caring relationships as essential elements of the greater *social wellbeing*. The model of *homo economicus* has changed not just how individuals think of themselves and their preferences, but how they relate to each other in creating an "economics of thin ties". Proponents of the "theory of performativity" in economics have recently shown how economics as a discipline has shaped the world of corporate capitalism (i.e., the ontological assumptions in the construct of the *homo economicus* has created the economic system based on greed and instrumentalism driven by the laws of profit maximization, competition, and capitalist accumulation).

The *homo economicus* as a neoclassical construct of the human agency, excluding non-utilitarian motives, non-market relations, and non-monetary transactions, is "purpose-built" for a special kind of economy (i.e., the market economy), therefore the concept may appear to be a correct logical construction for only the

anonymous market setting, and thus falsifies the neoclassical economists' claims to universal truths. It is an abstract construction, and does not exist in real life situations. Social life is hardly ever fully utilitarian, and people do not actually optimize utility through consistent and precise cost-benefit calculations (Homans 1990: 77). The "Rational Economic Man" model has been decisively disconfirmed by Experimental economics. For example, based on laboratory experiments, Gintis (2000) claims that in many circumstances economic actors "are *strong reciprocators* who come to strategic interactions with a propensity to cooperate, respond to cooperative behavior by maintaining or increasing cooperation, and respond to non-cooperative free riders by retaliating the 'offenders', even at a personal cost..."(p. 313). Thus, as Bourdieu argues, the *homo economicus*, as ontologically constructed, is a "kind of anthropological monster" (1997:61), and "the most extreme personification of the scholastic fallacy . . . by which the scholar puts into the heads of the agents he is studying . . . the theoretical considerations and constructions he has had to develop to account for their practices (Bourdieu 2005: 83). Even, John Stuart Mill, the originator of the idea of the *homo economicus*, himself admitted that it is "an arbitrary definition of man" and partial, a "very thin slice of human nature" separated out for analysis by Political Economy, which, as an *abstract* and *mental* science (akin to geometry), "reasons, and . . . must necessarily reason . . . from assumptions, not from facts" (Mill 2004:110).

Human beings are "less than perfectly rational" and have strongly ingrained norms about fairness, reciprocity, and cooperation that override cold and calculated "rationality". Humans have culturally evolved an elaborate system of ethics and morality, and a code of individual and collective conduct, which enable them to take decisions, not simply for short-term gains, but for long-range benefits as well. Horton (2011) rightly argues that "[t]he evolution of ethics, morals, fairness, and justice in human relationships, including economic relationships, has buttressed our long-term survival and evolutionary success . . . To monitor reciprocity and fairness, humans have developed acute abilities to detect cheating, free-riding, and unfairness" (p.474). Francis Fukuyama, very convincingly argues that the substantive conclusions of new evolutionary biology are supportive of *homo sociologus* than *homo economicus* (quoted in Horton *ibid.*). Humans are by nature not selfish and isolated individuals, and as Durkheim (1897:448) so convincingly claimed, society is not "a disorganized dust of individuals". Man is by nature, what Aristotle described, ζῷον πολιτικὸν (*zōon politikon*), who can achieve perfection only as a member of the *polis*.

Orthodox economics, with its assumption of the *homo economicus*, and the Rational Choice Theory grossly neglect both the logical possibility and empirical evidence of economic practices based on "different rationalities", "relational capital", as well as "cooperative logic" for the creation of "psychic income", "social profit" and "ecological wellbeing". Thus, orthodox economics severely constrains our cognitive abilities to

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