
SCIENTIFIC ARTICLES

Economic Theory

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BEYOND DUALISM BETWEEN DETERMINISM AND VOLUNTARISM IN DYNAMIC ECONOMICS, OR ESSAY ON THE “PARADOX OF HISTORY-CREATING DECISION”

1. Introduction

According to the Neoclassical Economics the economic dynamic is predetermined by tastes, endowments and technologies. Human actions reveal economic future but do not create it. I think that such approach can be treated as “Determinism in Dynamic Economics”. One of the properties of this approach is neglect of the fact that the past is irreversible, and the future is uncertain. The opposite conception – advocated by the Austrian School – believes that only absolutely subjective decisions of independent agents form economic future, therefore any mathematical models of the economic dynamic are futile. I think that this approach can be treated as “Voluntarism in Dynamic Economics”. One of the properties of such approach is neglect of the importance of resources and institutions (especially, power relations) for economic development. Both approaches, to my mind, give perverted, one-sided picture of the dynamic economic reality.

Is it possible to go beyond dualism between determinism and voluntarism in dynamic economics? It is possible to construct more realistic conception of economic dynamics? I suppose that the students can use instruments of the Post Keynesian macroeconomics which is characterized, among other things [1; 8], by two important features. One of them is the principle of “originative”, “creative” decision. According to this principle, economic agents, making decision, “create history”, that is, determine future situation of the economy. This feature implies non-deterministic nature of the economic reality. Another significant feature is the “shifting equilibrium approach”. This approach means that each state (position) of the economy is a consequence of the previous economic position and generates subsequent economic position. In other words, economic activity is the process of evolutionary changing of different economic positions (recovery, boom, recession, etc.). To be accepted as correct that the “shifting equilibrium approach” is based on the principle of “creative” decision. Nevertheless, as I think, there is a contradistinction between these features or the “paradox of history-creating

decision”. The purposes of my paper are the analysis of this „paradox”, the attempt to provide solution of that problem and the ascertainment of other “history-creating” factors (resources and institutions). I believe that clear understanding of all sides of human decisions and “creation of history” is very important in order to study the macroeconomy in (historical) time and to go beyond dualism between determinism and voluntarism in dynamic economics. It is Post Keynesian macroeconomics – permanently reconsidered and updated – that works in this direction.

2. The Principle of “Creative” Decision

This principle was implicitly contained in the works of Keynes [11, Ch. 12; 12] and first explicitly developed by Shackle (Shackle, 1939, 1966, 1974) whose approach is a something like a “mix” between Post Keynesian Economics and Austrian Economics. The point is that *the decisions of economic agents “create history”, in other words, determine future outcomes in the economy. The actions of people are not passive consequences of the previous events.* Moreover, typical individual, unlike Neoclassical approach dogmas, is not “taste-satisfying machine” [10, p. 218]. People can often form and alter own purposes and preferences independently. In this way even the decisions based on the achievement of current goals (utility, etc.) can be autonomous. Naturally, the decisions concerned with expectations are autonomous and independent in a more degree. Moreover, the longer is period of expectations, the more spontaneity in the decisions will be. Therefore the most independent, “uncaused” decisions are long-term fixed capital investment ones (see below section 5). It is therefore that in the economics of Keynes and Shackle capital investment “... was highly capricious, autonomous and unpredictable. It was a source of the things which happened to the system, rather than a mere transmitter of the circular impulses from one part of the system to another” [24, p. 44].

Such role of the decision in the economics of Keynes and Shackle is explained by the following reason. These economists studied economy in historical time,

that is, in one-directional time. Whilst Neoclassical economists and (often) Mainstream Keynesians examined logical or two-directional time. In the historical time the past is irreversible, the future is uncertain. In other words, historical time cannot move back, in distinction from logical time, therefore each decision can in principle create unique economic position. *While in the logical time human beings can only discover the future, in the historical time people can create it* [see 8, p. 167]. That is why Shackle criticized dynamic deterministic models of such Keynesians, as Kaldor, Kalecki, Harrod and Hicks, because they produced "...a self-contained system, where everything which happens is explained from within the system" [24, p. 29].

In such models almost all decisions were fully predetermined, as in the contemporary models of the New Classical economists. And that is why Post Keynesian economists follow Keynes and Shackle, stressing the importance of "creative", "uncaused" human decisions.

3. The "Shifting Equilibrium Approach"

The "shifting equilibrium approach" is fundamental characteristics of the "historical time economics" (that is, Post Keynesian economics). The point is that in the historical time the economy cannot have a tendency toward certain "state of rest" ("long-run equilibrium", "state of tranquility", "steady-state rate of growth", etc.). Because each human decision can influence on the future outcomes, any economic position can appear only once. *Shifts and changes of different economic states are imprescriptible features of the "history-creating decisions economies"*. This approach was first invented by Keynes [11, p. 293]. The essence of it is more clearly explained by Deprez and Milberg [9, p. 517 – 518]:

"In a historical model... the actual situation of one period feeds into the next period's decisions and outcomes, which feed into those of the next period, and so on. That is, the economy's evolution is a cumulative sequence of short-period situations... In this view of dynamic theory each sequence depends upon its own history and its own future and to talk separately of a cycle and a trend is unacceptable". It is clearly, that this sentence is confronted with the Neoclassical approach to the analysis of economic dynamics.

Therefore any theories describing the tendency of the economy to the "state of rest" does not reflect the real world of the "historical time economic systems". This statement was most brilliantly proved by Hyman Minsky in his "financial fragility hypothesis" [17; 18; 26; 27; 19]. In accordance with this conception, when the economy is in "state of tranquility", economic agents make decisions, which „disequilibrate“ economic system. In other words, the firms accomplish highly-leveraged capital investment; these actions generate boom. Further,

it turns out, that these companies cannot meet the cash payment commitments that grow out of previously undertaken financial obligations. This circumstance leads to economic recession. In other words, *in the historical time, almost any economic position contains in itself seeds of subsequent positions*. All these described ideas are the common point in Post Keynesian macroeconomics. As I think, these ideas are not so unambiguous and simple.

4. The "Paradox"

I believe that the principle of "history-creating decision" contains one internal contradiction concerned with the "shifting equilibrium approach" (which is, as I pointed out, inherent to the former feature of Post Keynesian macroeconomics). I try now to explain the "paradox" by the following example.

Suppose, that economic agent (or the group of economic agents) makes decision A in the period 1. Assume that this decision is absolutely autonomous and "creative". It means that, on the one hand, this decision is independent from the previous and current event, and, on the other hand, this decision determines future economic outcomes, for example, outcomes in the period 2. Then what will happen in the period 2? Economic situation in this period will be determined by the decision A, making in the period 1. In other words, actions and decisions of economic agents in the period 2 will be predetermined by the decision A. These actions and decisions will not be "uncaused" and "creative": it will be only passive transmitters of past affairs and events.

Is there the possibility of "uncausedness" and "creativity" of the decisions making in the period 2? Yes, but then the decision A will not "create history"; it will be powerless (in the terminology of Shackle [24, p. 74], because it will not influence on the actions of agents in the future (in this example – in the period 2). This example leads to the following conclusion. Many decisions of economic agents cannot be fully "uncaused" and "creative" in any "historical time economy". Shackle was not right, when he wrote [24, p. 85]: "If... history is not determinate, each decision-maker may be conceived to create history by each of his decisions".

In other words, the "paradox" consists in the following. *"Uncausedness" and "creativity" of one decision means inevitably "causedness" and "emptiness" of another one*. "Originativity" of actions of one economic agent(s) means "passivity" of ones of other agent(s). The special significance – and all the same "creativity" – of one economic positions implies that other economic states are passive (and may be even mechanical) by-product of the past economic development. In other words, not all economic positions matter for the determination of final outcomes. That is why, for example, the models of "cumulative causation" (circular

interaction between variables) and “lock-in” (the dependency of the current behavior of a decision-maker on his (or her) own actions in the past or on the current decisions of other agents), which tried to embody the “shifting equilibrium approach”, were not consistent with the theories of “creative” decisions. Both types of theories (on the one hand, “cumulative causation” and “lock-in” models, on the other hand, “originative” decisions models) were theories in historical time. But the point is that the “cumulative causation” and “lock-in” theories contained deterministic features as distinguished from the “creative” decisions theories. In connection with it Setterfield [22, p. 22 – 23] noted:

“The “dynamic determinism” inherent in these concepts [“cumulative causation” and “lock-in” – I.R.] means that, apart from the initial conditions (and in the absence of shocks), no other part of the historical trajectory of a system exerts an independent influence on the long-run or final outcome of the system, since all subsequent points on this trajectory derive in a deterministic fashion from the initial conditions themselves”.

5. The Attempts of Dealing with Paradox

In the previous section I came to conclusion, that not all decisions are absolutely “creative”. It can imply two things. First, as I pointed out above, some decisions “create history”, other ones are passive consequences of the previous events. Second, in principle, each decision may be partly autonomous and “creative”, and partly “caused” and “empty”.

On the other hand, if this statement – not all decisions are absolutely “creative” – is applicable to all economic events, then no decision can be fully autonomous and “originative”. I think that such point of view is an extreme one. *There are fully “uncaused” and “creative” decisions; there are decisions, which are deterministic and “empty” or “powerless”; there are decisions which contain features of two preceding kinds of ones.* I believe that the last statement is relevant to the degree of “creativity” of economic agents, variables and states of the economy [see also 22, p. 23].

What factors determine the degree of “uncausedness” and “creativity” of economic decisions? I suppose that the main factors here are the following: (a) the time period, during which outcomes of the decision will be realized; (b) the degree of the irrevocability of the decision; and (c) the amount of resources provided by this decision for the realization of other decisions. *The more is time period, the more is the irrevocability, and the larger is the amount of resources (which is necessary for the accomplishment of other decisions), the more spontaneity and “creativity” of the decision will be.* Why? In the first place, the more is given time period,

the less importance of the past and present events will be. If, for example, the outcomes of the decision will realize a twenty years later, that making-decision agent will not take into account current situation. In the second place, if such “long-term decisions” are one-off, then the decision-making agent cannot use past or current data as a statistical basis for this making. In the third place, these decisions “create history” because it is making of such ones that determine the degree of realization of other decisions.

It is clearly that the most autonomous and “creative” decisions are fixed capital investment ones. Such decisions are very long-term, does not repeat often and determine the production possibilities – and, therefore, income – of the economy. The last feature means that decisions concerned with the allocation of the production possibilities, for example, consumption and saving ones, cannot be “uncaused”, because given possibilities depend upon exogenous factor – fixed capital investment. The level of consumption is determined not by the will and intentions by economic agents, but by income. Income, in turn, is determined by capital investment. The Accelerator models of investment and business cycles are rejected by many Post Keynesians [see, for example, 2, p. 291] because these theories do not recognize spontaneity of fixed capital investment.

That is why those agents, who make fixed capital investment decisions, “rule the roost” of the economy [1, p. 45]. I have in mind the large companies. It is big business that “create history” by making its decisions, whilst the role of households is rather more passive (but not always, as it will be shown below). The same reasoning is applicable to the economic positions. The state of the economy, in which massive fixed capital investment (or disinvestment) decisions are making, is crucial for subsequent economic evolution. The phase of moderate expansion determines significantly the following phase of boom. As well as the “dying down” of the investment activity in the phase of slump determines the deepness of subsequent depression. In other words, the most important (more exactly, “originative”) “points” during the business cycle are the initial phases of expansion and recession. In the former points the actions of firms determine when the economy ceases to be in the depression and what the prosperity will be. In the latter points the actions of firms determine when the boom ends up and how the economy will sink in the gulf of collapse.

These deductions are one of the most important ones in this paper and complement the conclusions derived by Setterfield [22, p. 23] which asserted that not all events can be important: “... “mild” historical events may not really matter in the sense of their not having an influence on long-run or final outcomes”.

“Non-mild” events (massive fixed capital investment or disinvestment, and also, perhaps, successful “investments” in technologies and institutions), on the contrary, do the influence on the final outcomes. In other words, the “selective history” takes place [3, 22]. It is also clearly, for example, why many financial investment decisions are not so “originative” and “creative”. These decisions are not always long-term and one-off. Moreover, such decisions do not often form resources which necessary for the realization of other decisions. Nevertheless, some financial investment decisions are extremely important in the historical, “creative” sense...

6. The “Objective Restrictors” and Institutions

The above reasoning led to the conclusion that the absolutely “uncaused” and “creative” decisions can however take place. Such decisions are fixed capital investment ones. But this deduction is true only if two important conditions hold: if there is the absence of the “objective restrictors” of investment and if the social institutions do not change quickly.

The former condition means sufficient amount of the physical and especially financial resources, which are necessary for investing. The access to the physical resources is not very serious problem, because the “monetary production economy” – a Post Keynesian „nickname” of the capitalism [1; 19] – is rarely reaches the full employment position. The access to the financial resources problem is rather more crucial. The lack of liquidity can stop economic growth if even economic agents are bullish and ready to invest in the stock capital. Such lack can be treated as a special kind of the “liquidity trap” (Davidson, 1965, p. 62; 1968; 1969) and is a consequence of (mostly) high level of and/or increase in the liquidity preference. High liquidity preference (which can be often “uncaused”) can force agents not to invest in profitable but risky financial assets (for example, obligations of highly-leveraged business firms) and then some capital investment will not occur. It is in these circumstances that financial investment decisions can be “creative”! Therefore not only companies, but also banks [1, p. 45] and wealthy households can influence on the history of the economy in calendar time. Keynes [13, p. 668] asserted: “The banks hold the key position in the transition from a lower to a higher scale of activity”.

I think also that the large capital disinvestment in the beginning of a slump are not the passive pre-determined consequences of past events, but are often generated by extreme liquidity shortage, that is, by absence of necessary resources.

The second condition can be violated if there are rapid changes in the taxation, political, distributional and/or property rights systems. Capital investment decisions cannot be “uncaused” if, for example, taxes’ rates rise

or massive nationalization takes place. Spontaneity and “originativeness” of investment decisions are possible only under a more or less stable institutional structure. For example, investment collapse in the CIS countries (including Russia) in the 1990-s was a consequence of not so “originative decisions” of economic agents as adverse institutional changes and circumstances (political disintegration, too quick privatization, increase in the taxes, destruction of formal institutions due to rapid institutional transformation [20, p. 38] and so on).

7. Summary and Conclusions

The statements about the absolute spontaneity and “creativity” of all human decisions in the economy moving in (historical) time – in the „monetary production economy” – are in a more degree not true. There are some reasons for this conclusion.

First, absolute “uncausedness” and “creativity” of one decision means automatically deterministic nature of other decisions. “Creation of history” means that “created” historical events (and, therefore, human decisions and actions) are not spontaneous and “originative”.

Second, those decisions which are independent from the past and present decisions and acts (because such ones are long-term and one-off), cannot be realized when the necessary resources are absent. For example, capital investment with long period gestation cannot be occur if there is a lack of finances, which are necessary for providing this transaction.

Third, human decisions cannot be fully autonomous and “creative” when the social institutions (taxes, property rights, political system) change rapidly. Such changes do not permit to “look into the (far) future” (by imagination) and, therefore, realistically to ground these decisions. This sentence is touched upon the problem of “investor myopia” [21].

Such, only some (long-term and one-off) human decisions can be “uncaused” and “creative”, but it is possible, when there are no the lack of physical and financial resources (that is, “objective restrictors” are absent) and when changes in the institutional structure of the society do not occur. On the other hand, it should be kept in sight that the amount of some resources and the institutions can be itself are the outcomes of the human decisions (for example, investment decisions determine the production possibilities – see section 5 – and so on).

However, these sentences do not mean recognition of the determinism in the economics. Really, the economy is not mechanism, and the economics is not creation of mechanical analogues of the economy, as Mainstream economists prove [see, for example, 16, p. 281]. The essential investment decisions create new future and make the macroeconomy devoid of determinism. But the moving forces of the economy in historical time are not only the

will and spontaneous, capricious affairs of economic agents, as Austrian School economists think (and as Shackle believed). Yes, of course, in historical time the situation is impossible, when „the motion of the economy from state to state is independent of decisions made by individuals in the economy” [16, p. 69]. Historical time makes determinism impossible. But there are „parameters” which also do the influence on this motion: the availability of necessary – physical and financial – resources and the social institutions. I can agree here with Lawson [14, p. 920], who wrote:

“Individual actions and social practices each presuppose each other” [see also 15; 4].

In other words, resources, institutions and human decisions together determine the motion of the economy in historical time. As I think, Shackle overestimated the role of “originative” decisions and underestimated the importance of the “objective restrictors” and institutional environment. Besides that he (together with Austrian School economists) did not take into account the “paradox of history-creating decision”. As a result, the theories of Austrians and Shackle did not describe economic processes of the real world and did not contribute to the solution of the problems of this world (in distinction from, for example, theories of Keynes and Minsky).

Broadly speaking, the main conclusion here for Post Keynesian macroeconomics is the following. If the students do not take into account the social institutions and the availability of resources and do not see the “paradox of history-creating decision”, that they cannot understand macro-relationships in the “historical time economy”. The situation when any human decision can “create history” is impossible, because such “creation” means pre-determined nature of “created” all events, acts and decisions. The recognition of importance of the historical time and the refusal from building of the mechanical models should not lead to the overestimation of the human decisions “creativity”. It is the only way to go beyond dualism between determinism and voluntarism in the analysis of economic dynamics and to understand how to take into account in economic analysis both “creative” character of human decisions and the binding role of resources and institutions.

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Розмаїнський І. В. За межами детермінізму і волюнтаризму в динамічній економічній теорії, або Нарис про „парадокс рішення, що створює історію”

Стаття містить спробу виходу за межі дуалізму між детермінізмом і волюнтаризмом в динамічній економічній теорії. З одного боку, економічна динаміка не зумовлена смаками, початковими запасами ресурсів і технологіями (як учить неокласична школа). З іншого боку, економічна динаміка не є наслідком абсолютно суб'єктивних і спонтанних зусиль індивідів (як учить австрійська школа). Щоб вирішити поставлену задачу, автор застосовує посткейнсіанський підхід до аналізу економічної динаміки і акцентує важливість таких концепцій, як принцип креативного рішення і принцип рухомої рівноваги. Він формулює і досліджує „парадокс рішення, що створює історію”. Цей парадокс полягає в тому, що автономність і креативність якогось одного рішення неминуче означає причинну зумовленість і відсутність впливовості якогось іншого рішення. Різні рішення характеризуються різними ступенями автономності і креативності. У статті формулюються критерії, що впливають на це.

Ключові слова: детермінізм в економічній науці, волюнтаризм в економічній науці, посткейнсіанська економічна теорія, історичний час, креативне рішення, рухома рівновага, парадокс рішення, що створює історію.

Розмаинский И. В. За пределами детерминизма и волюнтаризма в динамической экономической теории, или Очерк о „парадоксе решения, создающего историю”

Статья содержит попытку выхода за пределы дуализма между детерминизмом и волюнтаризмом в динамической экономической теории. С одной стороны, экономическая динамика не предопределена вкусами, исходными запасами ресурсов и технологиями (как учить неоклассическая школа). С другой стороны, экономическая динамика не является следствием абсолютно субъективных и спонтанных усилий инди-

видов (как учить австрийская школа). Чтобы решить поставленную задачу, автор применяет посткейнсианский подход к анализу экономической динамики и акцентирует важность таких концепций как принцип креативного решения и принцип подвижного равновесия. Он формулирует и исследует „парадокс решения, создающего историю”. Этот парадокс состоит в том, что автономность и креативность какого-то одного решения неизбежно означает причинную обусловленность и отсутствие влияния какого-то другого решения. Разные решения характеризуются разными степенями автономности и креативности. В статье формулируются критерии, влияющие на это.

Ключевые слова: детерминизм в экономической науке, волюнтаризм в экономической науке, посткейнсианская экономическая теория, историческое время, креативное решение, подвижное равновесие, парадокс решения, создающего историю.

Rozmainsky I. V. Beyond Dualism Between Determinism and Voluntarism in Dynamic Economics, or Essay on the “Paradox of History-creating Decision”

The paper contains attempt to go beyond dualism between determinism and voluntarism in dynamic economics. On one hand, economic dynamics is not predetermined by tastes, endowments and technologies (as Neoclassical Economics teaches). On the other hand, economic dynamics is not a consequence of absolutely subjective and spontaneous affairs of individuals (as Austrian Economics teaches). In order to solve the problem author applies Post Keynesian approach to the analysis of economic dynamics and emphasizes such conceptions as the principle of “creative” decision and the principle of shifting equilibrium. He formulates and explores the “paradox of history-creating decision”. This paradox is the fact that “uncausedness” and “creativity” of one decision means inevitably “causedness” and “emptiness” of another one. All human decisions cannot be autonomous “creative”. The different decisions are characterized by the different degrees of “originativeness” and “creativity”. The paper formulates criteria which influence on it.

Key words: determinism in economics, voluntarism in economics, post keynesian economics, historical time, creative decision, shifting equilibrium, paradox of history-creating decision.

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