

The Meaning of Diversity in Economic Theory

A Critique of Theories, Methods, and Policies of Mainstream Economics

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Abstract

The purpose of this paper is to show where mainstream economic theory has lead research into an impasse that only can be overcome if concepts, which are more appropriate for the social sciences are brought to the centre of the scientific framework. One of the most promising new concepts, which economic theory and policy should focus on, is the concept of diversity.

The paper proceeds in three steps:

In chapter 1 it is argued that some traditional microeconomic fundamentals, like the assumption of representative, atomic agents (individuals and firms), is flawed. While its emergence can be historically explained as an attempt to mimic the success of theory building in the natural sciences, it actually is completely inadequate to describe social processes. Some examples of successful theory building with the concept of diversity as core concept are presented to underline the case (gender theory, evolutionary economics, and new growth theory).

The second chapter takes our topic to the area of methods. It is argued that a certain type of theory usually implies a certain type of methods. In the case of mainstream economics its origins evidently initiated a certain preference for the study of equilibrium states. In particular the sophisticated mathematical apparatus developed along the needs of natural sciences has been extremely attractive for the economic mainstream. Unfortunately the naïve import of these methods proved to produce results, which were increasingly useless for economic policy. Again it is shown how a departure from these methods - in particular an emphasis on

methods emphasizing the evolution of diversity – can provide much deeper insight in the social sciences, particularly in economics.

The third chapter then takes our focus on diversity to the object of investigation itself. Are economic processes at the micro-, meso- and macroeconomic level indeed characterized by an essential role of diversity dynamics? Several examples taken from recent work of the authors provide ample evidence that this undoubtedly is the case.

In a conclusion the arguments are summarized and perspectives for the most urgent theoretical problems and economic policy are presented.