

The Limits of Mainstream Microeconomics and the Evolutionary Alternative

Hardy Hanappi

Economics (Institute 105-3) University of Technology of Vienna

www.econ.tuwien.ac.at/hanappi/ Hanappi@tuwien.ac.at

Lecture prepared for a seminar at Chuo University in Tokyo.

Abstract

Following Paul Samuelson's famous outline for a neoclassical synthesis of microeconomics and macroeconomics, microeconomic theory has been developed as a foundation for an economic theory that helps to understand *all* economic phenomena. The so-called microeconomic foundation of macroeconomics was a research project that tried to explain how the essential macroeconomic dynamics can be deduced from plausible microeconomic assumptions. Today it is evident that this project failed.

The first part of this lecture shows why this project had to fail. It is necessary to determine its shortcomings to be able to build a more adequate research project, which promises to overcome most of the impasses that mainstream microeconomics has explored. As always, learning thus first of all is based on a clear understanding of past mistakes. The lecture will present a short list of essential inadequacies and then will try to elaborate their broader methodological implications; in particular, the need to advance from the standard mathematical toolset to algorithmic simulation approaches.

The second part of the lecture will take the next step in sketching how a new, non-mainstream economic approach might look like. As the history of science teaches, the older approach then often appears as a special case of the new theory. Some issues then often remain valid if only certain parameters are going towards zero or infinity. Nevertheless, without the new theory, in this case *evolutionary political economy*, most everyday social problems – in the long-run as well as in the short-run – would remain completely outside of social science explanations. So the main reason to develop evolutionary political economics stems from its applicability in practice, and its generalization of today's mainstream economics is just a by-product.