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The Foundations of Non-Equilibrium Economics: the Principle of Circular and Cumulative Causation

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Do economic processes tend to produce convergent equilibrium outcomes? The bulk of orthodox economics either assumes that they do or purports to demonstrate how and why they do. Yet 'out there' in the real world is abundant evidence of economic processes that have divergent characteristics. An early start gives cumulative advantages. Those with power perpetuate their privileged positions. The rich get rich while the poor get (relatively) poorer. Vicious circles recur. These are commonplace examples of processes of circular and cumulative causation (CCC).

So when theory and reality diverge what is to be done? The orthodox theorists may choose to ignore the reality. Proponents of CCC argue for a change in the theory. Beginning with the pioneering contributions of Thorstein Veblen, economists such as Allyn Young, Gunnar Myrdal, Nicholas Kaldor and William Kapp have sought to embed the CCC principle at the core of an alternative political economy. A challenge is thereby mounted to the soothing, but misleading, equilibrium theories of the orthodox economists. This edited collection of articles explores the theoretical basis and links of CCC within the traditions of institutional and post-Keynesian economics. Some of the chapters also focus on empirical issues that can be interpreted through the prism of CCC principles, such as Toner and Butler's analysis of the role of industry policy in Northeast Asian economies; Berger and Glavin's analysis of salmon fisheries from an ecological economic perspective; and Semenova's analysis of the historical origins of money.

Meanwhile, back in the straightjacket of orthodox economic theory, these heresies cannot be admitted. 'New growth theories' admit the possibility of divergent economic outcomes but the standard textbooks continue to emphasise models of market equilibria. Somewhat ironically, this vicious cycle of conceptual closure thereby illustrates how CCC principles also apply in the realm of economic theory and ideology.