

# **Creating a pluralist paradigm: An application to the minimum wage debate**

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Economic processes are very complex phenomena. In order to grasp their very essence, economists have come up with various theories that try to reduce these phenomena to their essential elements. Doing so has led to the emergence of many different approaches that can be summarized within so called schools of economic thought. These schools differ from each other in many ways, including implicit consent about research methods as well as which aspects of reality are important and which ones can be neglected. When it comes to the former, some schools, like the dominating neoclassical school, try to reduce economic behaviour to a set of mathematical expressions, while others, like the institutionalist school, rely more heavily on verbal exposition and others can be found somewhere in between (post-keynesian, evolutionary school). With respect to the latter, some schools, like the neoclassical school, put more emphasis on the decision making process of the individual, whereas e.g. the post-keynesian school focuses more on effects that emerge from aggregation and institutionalist and evolutionary economists are very much preoccupied with economic processes and their evolution.

When social scientists deal with a question, they should always be willing to take additional perspectives into account as long as these perspectives provide additional insight. For economists this means that economic discourse should essentially be pluralist in its nature. Unfortunately this is usually not the case, with economists usually thinking within the boundaries of their preferred school of thought. In order to change that, economics needs a new pluralist paradigm that includes these different perspectives and thereby provides a platform for integrating compatible theories and testing conflicting hypothesis (Kapeller and Dobusch 2012). However, given that different schools of thought use different methods, coming up with a framework for the synthesis is not straight forward: Integrating different economic theories within one mathematical framework can be a difficult task, since formal models originating from different schools usually start from very different axiomatic and methodological foundations. Hence trying to integrate them might create logical inconsistencies on the way, while integrating non-formalized theories into such a framework would almost surely involve sacrificing part of their content. Therefore, a better way to move

forward might be to use verbal exposition as a preferred tool. This way the researcher can avoid having to overly simplify certain theories and can retain a pragmatic stance on differences in axiomatic foundations. A potential shortcoming of verbal exposition is however that it may lack the precise structure that is sometimes provided by a formal model.

The paper argues that these difficulties can be overcome by representing economic theories in terms of causal maps and by embedding these causal maps within a micro-meso-macro structure. In order to illustrate this point, the paper applies this method to one of the most contested issues within economics: the impact of the minimum wage on employment. Within the economic mainstream debate the latter has more or less been narrowed down to a controversy about whether the so-called competitive labor market view or the monopsonistic labor market view is more accurate. While the former represents the standard neoclassical view, the latter allows to explain the – to some at least – more counter-intuitive result of positive or zero employment effects within the narrow boundaries of neoclassical theory. Reducing the mainstream debate to a struggle between the competitive and the monopsonistic labor market view of course represents an unjustified simplification that omits post-keynesian, institutionalist and evolutionary concepts that also shed some important light on the minimum wage issue. The paper shows how integrating all of these different concepts by the use of structured causal maps can reveal conflicts as well as complementarities between these different approaches and can therefore contribute to a better understanding of an important economic phenomenon.

## **References**

Kapeller, Jakob and Leonhard Dobusch. “Heterodox United vs. Mainstream City? Sketching a Framework for Interested Pluralism in Economics.” *Journal of Economic Issues* 46, 4 (2012): 1035-1058.