

# Frederic S. Lee and his fight for the future of heterodox economics

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*“Well, in our country,” said Alice, still panting a little, “you’d generally get somewhere else—if you ran very fast for a long time...” “A slow sort of country!” said the Queen. “Now, here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!”*  
(Lewis Carroll, *Through the Looking-Glass, and What Alice Found There*)<sup>1</sup>

## 1. Fight for the future

During his unfortunately short professional career, Frederic Sterling Lee (1949-2014) made unprecedented contributions to heterodox economics in terms of developing heterodox microeconomic theory, building a global community of heterodox economists, and practicing his radical ideas for social change. These three domains of Lee’s contributions fully overlap in his fight for the future of heterodox economics (see Lee, 2004; Henry, 2015; Jo, Todorova, 2015, for more detailed accounts of Lee’s contributions to heterodox economics<sup>2</sup>). He was, as many heterodox economists remember, a dedicated captain of the heterodox economics movement over the past thirty years. In their tributes, Fred Lee’s friends, colleagues, and students recognize that he was an extraordinary heterodox economist, “a remarkable man who played a unique role in

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<sup>1</sup> This is one of Fred Lee’s favorite quotes, which appears in his course syllabi.

<sup>2</sup> See also Fred Lee’s *Interview* with the Union for Radical Political Economics, September 25, 2014 (video available at [https://youtu.be/cveB\\_s\\_-olE](https://youtu.be/cveB_s_-olE)).



heterodox economics”, “a caring, affable, and optimistic person with seemingly boundless energy and enthusiasm”, “a wobbly through and through and a rebel worker who never abandoned the cause”, and “an inspirational teacher and wonderful mentor who taught students how to do heterodox economics in a pluralistic, realistic, and integrative manner, and who cared about his students from the bottom of his heart”.<sup>3</sup>

Lee’s persistent effort to organize heterodox economists is well-known. He played an integral role, amongst others, in establishing the Association for Heterodox Economics in the UK in 1999 (see Mearman, Philp, 2016), created the *Heterodox Economics Newsletter* in 2004, edited the *American Journal of Economics and Sociology* (2009-2013),<sup>4</sup> organized numerous conferences, workshops, and seminars both in the UK and the USA, and undertook a series of works on the alternative rankings of economics journals and departments as well as on the research assessment exercise (RAE) in the UK.

Of course, he did not accomplish all by himself. He believed that it is the making of a social system of work created by like-minded people that make any social change happen. In the process of engagements

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<sup>3</sup> A collection of tributes is found on his website, <http://heterodoxnews.com/leefs/tributes>. See also “Tributes in Memory of Frederic S. Lee”, edited by Tae-Hee Jo available at <http://heterodox-economics.org/archive/lee/tributes2015.pdf> (February 2015). A collection of essays honoring (and expanding on) Fred Lee’s work has been published posthumously with the title *Advancing the Frontiers of Heterodox Economics: Essays in Honor of Frederic S. Lee*, edited by Tae-Hee Jo and Zdravka Todorova (Jo, Todorova, 2016).

<sup>4</sup> Under Lee’s editorship the *Journal* not only grew by 150% in terms of submissions, but also expanded its scope by attracting papers from various heterodox traditions. However, he stepped down from the editor’s position against his will. In his last editorial, he wrote that “it is in journals like the AJES, where the bounds of conventionality are stretched or broken, that new, provocative, and alternative scholarly contributions are made. Hopefully, another journal and its unconventional editor will arise and carry on the AJES agenda of the past four years” (Lee, 2014a, p. 2). As soon as the managing board of the AJES decided to change the nature of the journal to one that only invites papers and the papers are to be more ideologically oriented towards Georgism and less academically oriented, Lee quickly opened a discussion with major heterodox economics associations in order to launch a new heterodox-pluralist journal, and sent a proposal to several publishers. All publishers, however, turned down the proposal.

through the system of work people find a common interest, develop a shared identity, and therefore strive to move forward together. Lee thus organized fellow heterodox economists and urged others to do the same for the future of heterodox economics.

In doing so, he was never afraid of being accused of being a troublemaker or nuisance by those, be they mainstream or heterodox economists, who endorsed the status quo of their theoretical and professional position. To Lee, heterodox economists' inaction and silence in the face of faulty economic theories and of injustice under capitalism were as sinful as mainstream economists' endeavor to gloss over the reality. He believed that heterodox economics is far more than a critique of mainstream economic theory. He wanted to build an integrative—but not all-inclusive—theoretical framework that is alternative to and independent of mainstream economics, and that is made better by theoretical debates promoting critical pluralism and intellectual dynamism (Lee, 2011c; 2012a; 2012b).

Fred Lee had a deep-rooted concern with the uncertain future of heterodox economics, which was derived from his direct observation of the marginalization of heterodox economics through institutional pressures (e.g. in hiring or research evaluation). This observation he gained while studying and teaching in the USA and the UK, as well as from his broad acquaintance with social and economic history. Lee warned, even before attacks on heterodox economics programs and researches became widespread, that heterodox economics would cease to exist if heterodox economists stop teaching heterodox theories to their students, stop joining heterodox associations, stop subscribing to heterodox journals, stop attending heterodox conferences, stop challenging the mainstream-oriented research assessment exercises, and stop engaging with other heterodox traditions (Lee, 1995; 1996b; 2009b, p. 206).

His warning appears to be legitimate since, while heterodox economists widely recognize the importance of making a social system of work (qua institutions and theories), only a small number of them actually practice what they believe, and even fewer heterodox economists carry out what is required for the reproduction of

heterodox economics. Such a grave concern led him to devote his entire professional life to build an institutional basis of heterodox economists. In the same vein, he felt obliged to write an organizational history of heterodox economics, which was published as *A History of Heterodox Economics: Challenging the Mainstream in the Twentieth Century* (Lee, 2009b). The main objective of this book is to persuade his fellow heterodox economists and the future generation of heterodox economists that it is possible to reproduce heterodox economics, *if* heterodox economists in various traditions develop a better theoretical framework together and, equally importantly, “walk the walk to ensure that heterodox economics programs exist and heterodox economists have jobs”.<sup>5</sup>

There is no doubt that Fred Lee has been highly recognized for a range of work building institutions and social networks for propagating heterodox economics, since such work has a direct and significant impact on others, especially young heterodox economists. But Lee’s influence goes much farther than that. Like Alice in Wonderland, he knew that we are living in the ‘strange world’ of economics (albeit many of us do not recognize this). Thus he ran at least twice as fast as the rest of heterodox economists and, undeniably, far faster than any neoclassical economists. Otherwise, it would have been impossible for him to make such wide-ranging contributions to heterodox economics.

## 2. Theoretical challenges

Fred Lee’s theoretical challenges went hand in hand with his effort to build social networks of heterodox economists as well as his social movement with Industrial Workers of the World (Lee, 2009a; see also Henry, 2015). He took a critical attitude toward all existing theories and engaged in a number of theoretical debates since early

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<sup>5</sup> Fred Lee, *A letter to heterodox economists*, email, October 2, 2014 (available at <http://heterodoxnews.com/leefs/joe-hill-heterodox-economics>).

1980s. Specific issues he worked on were price doctrines, long-period prices, the marginalist controversy, production schema, the theory of the firm, market competition and market governance, the surplus approach, value theory, heterodox micro-foundations, and the modeling the economy as a whole.<sup>6</sup> These issues were examined as part of his 30-year project of developing “heterodox microeconomic theory as a complete alternative to neoclassical economics” (Lee, 2014c, Preface).<sup>7</sup>

He was unable to complete this project as he had aimed in the beginning of his career.<sup>8</sup> It is, however, clear what he wished to do and why one person took on such a seemingly impossible duty. Let me briefly delineate Lee’s major theoretical contributions.

His first economics paper, “The Oxford Challenge to Marshallian Supply and Demand: The History of the Oxford Economists’ Research Group”, was published in *Oxford Economic Papers* (Lee, 1981), while Lee was doing his doctoral coursework at Rutgers University. In this article, Lee brought up a series of studies undertaken by the Oxford Economists’ Research Group (OERG) in the 1930s and 1940s, which were largely neglected by most Post Keynesians and other heterodox

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<sup>6</sup> Fred Lee authored or edited 16 books, 56 journal articles, and over one hundred book entries, book reviews, and notes of one sort or another. The complete bibliography is found on his website, <http://heterodoxnews.com/leefs/publications/bibliography>, as well as in the festschrift volume.

<sup>7</sup> It should be noted that although Lee’s research is concentrated on microeconomic issues, he did not support the view that micro and macro are separate or unrelated. His approach to heterodox microeconomics is to be understood in the context of the economy as an emergent whole. Heterodox micro-foundation, in Lee’s perspective, is a project of making micro- and macro-analyses consistent and coherent (see Lee, 2011b; Jo, 2015; see also “The role of microeconomics: a view of a heterodox micro theorist”, the last lecture by Lee at the University of Missouri-Kansas City, April 24, 2014; video available at <https://www.youtube.com/watch?v=6HncE6ApwgY>).

<sup>8</sup> After he was diagnosed with terminal cancer, Lee wished to finish a monograph, *Microeconomic Theory: A Heterodox Approach*, which would have concluded his project, but it did not happen because cancer cut his life short unexpectedly. This incomplete monograph is being edited by Tae-Hee Jo, and is expected to be published in 2017. Lee was also working on a couple of other monographs. They are *Neoclassical Microeconomics from a Heterodox Perspective* (available online at <http://heterodoxnews.com/leefs/nc-micro>) and *Topics in Heterodox Theory of Production*.

economists. The striking result of OERG studies is that “the Marshallian [supply-demand] framework was inconsistent with the empirical evidence”—that is, there is no functional relationship between investment decisions and interest rates, and the business enterprise does not set the price following the marginalist principles (Lee, 1981, p. 339). Through the analysis of the OERG studies, Lee was raising a couple of fundamental questions: what if there are no conventional price mechanisms as the organizing principle of economic activities? What, then, drives the provisioning process under capitalism?<sup>9</sup>

These questions remained central to Lee’s heterodox microeconomics, which was largely influenced by Gardiner C. Means, P.W.S Andrews, and Alfred S. Eichner. In his PhD dissertation and in the following studies, he explored the role of price and pricing principles utilized in the real world. He argued that actual market prices are administered by the business enterprise to reproduce itself following pricing procedures adopted by the single business enterprise or market governance organizations, and hence that prices are non-exchange specific; since prices are administered and stabilized by the business enterprise, prices do not clear the market (Lee, 1983; 1984a; 1984b; 1994; 1996a; see also Jo, 2015; 2016). These early studies led to a series of theoretical engagements and rejected some of then popular heterodox theories and approaches. Lee rejected, for example, the classical-Sraffian long-period approach (Lee, 1985), the Post Keynesian assumption that average direct costs are constant (Lee, 1986), the Kaleckian degree of monopoly and its structural relation with prices through profit mark-ups (Lee, 2013a), the Marxian labor theory of value in the conventional form (Lee, 2012b), the separation of micro from macro (Lee, 2010; 2011a; 2011b), and a model of the capitalist economy without production,

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<sup>9</sup> At the Association for Evolutionary Economics annual meeting in conjunction with the Allied Social Science Associations meetings (January 3-5, 2016, San Francisco, USA), I delivered the Presidential Address on behalf of Frederic S. Lee, President-in-Memoriam, with the title: “What if there are no conventional price mechanisms?” This paper has been published as Jo, 2016.

classes, the state, state money, the banking sector, or heterogeneous inputs (Lee, 2011b; 2013b; 2014b).

Lee's critical engagements with heterodox economic theories indicate that he had a clear methodological position (akin to the approach taken by historians) in making his own theoretical arguments: that is, an economic theory is historically contingent and, thereby, must be historically grounded. This position not only runs counter to the neoclassical prioritization of logical consistency (or abstraction) over historical reality, but is also stronger than Keynes's and Post Keynesian concept of irreversible historical time (or non-ergodicity), since historical time could be incorporated into a model that is not historically grounded. For example, an agent-based simulation model shows interactions between 'agents' and 'structures', which result in path-dependent changes by changing the parameters of the model. However, this is a conjectural exercise, not the description of an actual historical process whose changes are made by real acting persons. If a theory did not resemble the real world or a model was not derived from the real world, Lee rejected it even though it was advocated for by other heterodox economists. This, however, does not mean that his position was closed to alternative explanations. He respected others' ideas if they were historically grounded and if they deepened our understanding of the capitalist economy.

His methodological commitment was later augmented when he incorporated critical realism and the grounded theory approach into his theoretical framework in the 1990s (see Jo, 2016; Lee, 2002). With such theoretical and methodological positions, Lee's study on pricing and price doctrines produced a seminal book, *Post Keynesian Price Theory* (Lee, 1999). In the last chapter of this book, he outlines the empirically grounded pricing model combined with the circular production schema,<sup>10</sup> which formally displays that economic activities are driven by decisions to produce surplus goods and services (that is, effective demand in the context of a capitalist monetary production

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<sup>10</sup> These models have been developed further in the following years.

economy), rather than by the price mechanism. While this conclusion is congruent with the theoretical core of Post Keynesian, Marxian, and institutionalist economics, it is a theoretical framework that breaks with boundaries set by existing theories, both neoclassical and heterodox. On this Lee notes that:

“the pricing foundation developed in this chapter will not win the approval of all Post Keynesians, in part because it does not include particular cherished concepts and in part because of its methodological and theoretical orientation. However, if Post Keynesians today are to advance their analysis of capitalism, they must not continue to be constrained in terms of theory and method of analysis accepted by their teachers and mentors and their teachers’ teachers and mentors” (Lee, 1999, p. 230).

Lee’s study on price, pricing, and production was not the end but rather the halfway point of his grandiose project. Expanding on his early studies, he moved on to broader issues such as market competition and market governance, the social provisioning process, and the social surplus approach. These issues became essential part of his micro-macro model of the monetary production economy (see for example Lee, 2010; 2011a; 2011b).

Unlike most heterodox macroeconomic approaches dealing mainly with aggregate variables or structural tendencies of the economy at the aggregate level, Lee’s disaggregated historically-grounded framework explains the interactions amongst agency, structures, and organizations. In this framework, strategic actions (or agency) are the key to understand the dynamics of capitalism. Strategic actions, such as pricing, investment, financing, production, and employment are not predicated on relative scarcity and, thereby, on the conventional price mechanism. That is, productive activities are not constrained by scarce resources, but by business enterprises’ and state’s decisions to produce surplus goods and services (Lee, 2012b; Lee, Jo, 2011). Thus, Lee’s micro-macro integrative framework is designed to offer non-neoclassical microeconomic foundations of heterodox economics. With this theoretical vision of the whole economy in place, it is possible to examine specific issues concerning



agency, structure, or organization in the context of interdependent and embedded economy.

This is the general agenda for heterodox microeconomics that he dealt with, and that is in need of further articulation.

### **3. Conclusion**

While fighting cancer, Fred Lee was able to deliver three presentations for different audiences in 2014: one at the University of Missouri-Kansas City in April, another at the Association for Heterodox Economics conference in July, and lastly at the International Post Keynesian Conference in September. The title of all three presentations was “The Role of Microeconomics in Heterodox Economics: A View of a Heterodox Micro Theorist.”

This title clearly indicates what he wanted to say to his students and fellow heterodox economists. As a heterodox microeconomist, Lee challenged the neoclassical price mechanism that is theoretically incoherent and empirically invalid. At the same time, he was critical of any heterodox theories that do not add to our understanding of how the capitalist economy actually works. He urged heterodox economists to build a better theory, which goes beyond the conventional micro-macro divide, to question the status quo of capitalism by examining underlying causal mechanisms and agency, and to communicate with others in different theoretical traditions in order to make heterodox economics more pluralistic and integrative. At the same time, he fought tirelessly to build institutions under the conviction that the future of heterodox economics lies in the strategic (and unselfish) actions of present heterodox economists. This is Fred Lee’s unique and most important contribution that should be remembered and renewed, if heterodox economists are concerned with the future of heterodox economics.

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