

What Is Orthodox Economics?

Gary Mongiovi

Economics & Finance Department
St John's University
Jamaica, NEW YORK 11439 (USA)
Email: *mongiovg@stjohns.edu*

1. Introduction

The great Italian economist Maffeo Pantaleoni once remarked that there are only two schools of economics. To the first belong those who know how to make reasoned arguments about economic processes; to the second belong those who are unable to make such arguments.

This proposition may be applied broadly or narrowly. In its narrow interpretation it means: if you don't explain economic phenomena the way I do, you belong to the second group. Under the broad interpretation of Pantaleoni's principle, the economist recognizes that there are different ways to come at a problem. We needn't, and perhaps often won't, agree about how to explain what we observe, but the discussions in which we argue out our disagreements can be fruitful all around. Each side of a debate can come away with something useful, because subjecting our views to critical scrutiny from those who look at matters in a different way can expose weaknesses in our reasoning and lead us to a more cogent position. This seems like an uncontroversial point, and probably not even the most doctrinaire of economists would disagree with it as a matter of principle. The problem is that, as a matter of practice there is now very little discussion taking place across intellectual traditions in economics.

Human beings have a natural inclination to parse and classify things. Assigning labels to different analytical perspectives—schools of thought—crystallizes their distinctive salient features. The label “orthodoxy” has been in use among political economists since at least the mid-19th century. The appellation “heterodox economics” is of more recent vintage, having emerged in the past two decades as a reaction, on the part of some economists, to being shut out of mainstream discourse.

There have always been dissenters and iconoclastic voices in our discipline. But until the last quarter of the 20th century these voices were a prominent part of the conversation. Joan Robinson, Richard Kahn, Michal Kalecki, Piero Sraffa, Maurice Dobb, Adolph Lowe and F. A. Hayek were fully engaged in the central theoretical and policy controversies of their day. They were able to publish in prominent mainstream journals. As late as 1971, John Kenneth Galbraith was elected president of the American Economic Association; at his instigation, Joan Robinson was invited to deliver the prestigious Richard T. Ely lecture at the organization's annual meeting (Robinson, 1972). Mark Perlman, who edited the *Journal of Economic Literature*, one of the profession's flagship journals, from 1969 to 19xx, had strong Institutionalist leanings and made a point of commissioning essays that challenged neoclassical positions (e.g. Harcourt, 1969; Eichner & Kregel, 1975). Institutionalists were a vibrant and influential presence in American economics up to the early 1950s. In the second half of the 19th century the

British and German Historical Schools were taken seriously by the equilibrium theorists they attacked.

We must not of course minimize the reality of ideological and institutional suppression: disputants use whatever powers are at their disposal to advance their agendas. Despite that, dissent was heard and had an impact, if only by provoking reasoned responses and more nuanced arguments from their mainstream targets.

The situation has changed radically. Critics outside the of mainstream of economics are barely on the radar screens of most economists, many of whom feel no obligation, intellectual or moral, to respond to criticism from outside the dominant paradigm, much the way that astronomers feel no need to engage in debate with flat-earthers. How this situation has come about is no doubt a complicated question. But it is a useful question to ask, because the answer may show non-mainstream economists what they're up against and how they can get back into the conversation.

2. What is Orthodoxy?

The terms orthodoxy and heterodoxy are suggestive of irreconcilable outlooks locked in battle over the soul of the discipline. But in economics, what is most striking about the relation between the heterodox and mainstream camps is the latter's reluctance to engage with the former. Then, too, there is the question of how orthodoxy is to be defined. Much of modern mainstream economics does not fall neatly within the scope of Lionel Robbins's "science which studies human behaviour as a relationship between ends and scarce means which have alternative uses (1935, p. 16; see Colander, Holt & Rosser, 2004, discussed below). So we confront a paradoxical situation in which a mainstream that appears to be in flux remains sufficiently cohesive to exclude from its discourse a sizeable subgroup of the profession.

The word "orthodoxy" has a pejorative connotation: it implies a stodgy conservatism, resistance to novelty, and ideological rigidity. Orthodoxy is static, anchored in conventional wisdom, and slow to adapt to new conditions; it is retrograde, an impediment to progress. To call an idea, or the person who enunciates it, "orthodox" is to utter an epithet. Heterodoxy carries negative baggage of its own. A heterodox thinker is not so much pushing the envelope of established doctrine as operating outside the boundaries of acceptable scientific practice; he is by definition marginalized. There is a whiff of indiscipline about the word, as of ideas that have not met the recognized criteria for intellectual respectability—never mind that those criteria are precisely what heterodoxy wants to call into question.

Yet every orthodoxy begins as a revolutionary departure from some entrenched paradigm. Karl Menger, William Stanley Jevons and Léon Walras, whose contributions sparked the so-called marginalist revolution in the early 1870s, thought of their work as a radical break from the dominant Ricardo-Mill tradition. Of the three, Menger, as the founder of the Austrian School, has the strongest link to a modern-day dissenting tradition. But Menger embraced the a priori deductive method that grounded the orthodox economics of the 19th century, and he emphatically rejected the inductive approach of the German Historical School economists who were then the leading opponents of the Ricardo-Mill orthodoxy. To amplify the irony, Menger, despite his commitment to methodological individualism, was deeply interested in how institutions emerge and

evolve; the non-mainstream status of Austrian economics stems in large part from its affinities to Institutionalist economics.

Alfred Marshall, approach. The most influential advocate of the marginalist approach in its formative period, sought to establish a continuity between the new theory and the economics of Ricardo and Mill. Marshall appears to have been motivated, first, by a distaste for controversy, but also by a strategic consideration. He believed that the scientific pedigree of the marginalist ideas would be reinforced if they were presented as advances built upon a familiar and well-respected foundation, rather than as manifestations of a rupture with earlier views. Where Jevons railed against the “noxious influence of authority,” Marshall tried to buttress the new approach by linking it to the classics.

One legacy of this is our curious depiction of supply and demand curves, with the dependent variable, quantity, on the horizontal axis, and the independent variable, price, on the vertical axis, rather than the other way around, as is standard practice in all other fields. Smith and Ricardo recognized that unit costs in any sector of production depend partly on the scale of output. In manufacturing, where higher levels of output enlarge the scope for the division of labor, real unit costs are apt to fall as output increases. In agriculture and extractive industries like mining and fisheries, production on a larger scale may run up against diminishing returns, causing unit costs to rise. Neither Smith nor Ricardo conceived of this pattern in terms of a definite functional relationship between quantity and cost of production. Marshall who was trained in mathematics, did, and it was not at all surprising that his depiction of the supply curve treats quantity as the independent variable. But then when he introduced demand as a force symmetric with cost and supply, he had already put quantity on the horizontal axis and was therefore obliged to adopt a formulation of the demand function that made price dependent on quantity demanded; and so was born the awkward notion of demand price—the maximum price at which sellers can dispose of a given quantity.

Marshall, we should note, counted the German Historical School economist Wilhelm Roscher among his principal influences. In the UK, Italy and the US, the Marshallian strain of marginalism negotiated, with mixed success, a sometimes unstable balance between the abstractions that are necessary to formal theoretical reasoning, and the attention to institutional reality that permits the application of theory to practical questions.

The Emergence of Neoclassical Economics

Classical political economy, however we choose to define it, had ceased to be a progressive research program by 1848, the year in which the first edition of John Stuart Mill’s *Principles of Political Economy* was published. In the *Principles*, Mill wrote, astonishingly, that “there remains nothing in the laws of value which remains for the present or any future writer to clear up.” One cannot help but wonder what Mill was thinking. Ricardo had failed to resolve the difficulties in his own theory of value stemming from the vexing interdependence of prices and distribution.¹ In fairness to Mill,

¹ So preoccupied was Ricardo with “clearing up” these problems that he was grappling with the, unsuccessfully, until a few days before his death.

the difficulties troubled Ricardo more than they did his contemporaries or, save for Marx and later Sraffa, those who came after him.

Mill is generally regarded as a transitional figure, with one foot in the classical camp and the other edging its way toward neoclassical supply and demand theory. A bit further on in the *Principles* from his remarks on the inexistence of value-theoretic problems in need of clearing up, Mill provides an account of price determination that anticipates the supply and demand story (see Book III, ch. 1, “Of Value”). He describes something very like a demand curve, which is downward-sloping of course. And then he describes something very like a supply curve, which may be upward-sloping or downward-sloping, depending upon how unit costs vary with respect to output.²

The argument set out by Mill, similar to one outlined by William Whewell two decades earlier, can fairly be described as underdeveloped. It is intuitive rather than carefully delineated, in a sense little more than a restatement of what Marx would have called the vulgar economy of Mill’s contemporaries.

The theory of distribution was also in an unsettled state. A prominent element of 19th century economic discourse, the wages fund doctrine, was under fire. The doctrine starts from the premise that capitalists advance a given amount of funds for the employment of labor. Given the size of this wage-fund, a higher rate of remuneration for labor entails a reduction in the number of workers employed, the relation between the wage w and employment N mapping out a rectangular hyperbola. The wage fund doctrine, in vulgarized form (see Schumpeter, 1954), was used to ground opposition to wage increases. The argument was that any increase in the wage rate would inevitably lead to a compensating reduction in employment. Mill initially accepted the soundness of the wages fund doctrine and then rejected it. His recantation caused a considerable stir, for it deprived the opponents of wage increases of some intellectual ammunition.

In the second half of the 19th century laissez-faire was beginning to lose some its luster as the social and economic problems connect with industrialization and urbanization became impossible to ignore. Also emerging were methodological challenges to the a priori method associated with the orthodox school. By 1870, the general impression is of a discipline in crisis, or at least of a discipline that was running out of steam—that had little of relevance to say about conditions prevailing at the time, or that was doctrinaire and ideological rather than scientific. This doesn’t mean that orthodox political economy was without considerable influence: “hired prizefighters” can be, and were, effective advocates. But there was without a doubt a sense of malaise, a sense that the discipline had arrived at an impasse.

The British Association for the Advancement of Science had a Section F, representing Statistics and Political Economy. In 1877, the geneticist Francis Galton argued that Section F should be abolished on the ground that Political Economy did not meet the criteria of a scientific discipline. The following year, John Kells Ingram read to Section F an essay entitled “The Present Position and Prospects of Political Economy.” Ingram, a representative of the British Historical School, defended the status of political

² Marshall was similarly conscientious in his discussion of the supply function, which he laid out diagrammatically in an 1879 essay on “The Pure Theory of Domestic Values,” and then in his *Principles of Economics* (1920; first edition 1890). In general, the further we get from Smith and Ricardo, the less attentive economists are to the possibility that the cost of a good will decline as its output increases.

economy as a science, but he acknowledged that the field was in a worrisome state, a condition he attributed to methodological deficiencies. It is perhaps a sign of the weakness of economic orthodoxy at the time that Ingram, a dissenting figure who was critical of classical orthodoxy, was given such a prominent platform.

Describing the situation as it then stood, Ingram (1878, p. 41) wrote:

[The] claim [of Political Economy] to form part of the British Association has been disputed. Some of the cultivators of the older branches of research [have] intimated ... that [Political Economy and Statistics] would do well to relinquish pretensions which cannot be sustained and proceed, with or without shame, to take the lower room to which alone they are entitled.

Ingram identified four main methodological defects in the dominant outlook. They are interconnected, and he argued that their resolution was essential to resuscitate political economy from its moribund state:

- The subject is excessively narrow in focus: it “isolate[s] the study of the facts of wealth from that of other phenomena,” when what is needed is an interdisciplinary approach.
- The usual method of investigation is “metaphysical or viciously abstract.” Ingram argues that more careful attention needs to be paid to the facts of the world.
- There is an excessive reliance on the deductive method: induction and historical analysis are more appropriate ways to approach the investigation of socioeconomic phenomena.
- Finally, Ingram criticized the absolutism with which political economists set forth their conclusions: the conclusions of social science are by nature tentative and conditional. When circumstances change, we need to revise our positions.

At fairly regular intervals neoclassical economics has been battered by serious attacks on its conceptual foundations, beginning with criticisms of the notion of utility as a measurable entity; Sraffa uncovered problems in its derivation of the supply curve; the Keynesian episode cast doubts on its applicability to modern industrial reality; and then came the capital critique. The theory was in each instance able to reinvent itself to evade the criticism, or, as in the case of Keynes’s theory, assimilate the dissenting ideas. The process of reinvention often involved the adoption of assumptions that undermined the theory’s anchor to reality, as when difficulties relating to the construction of the demand function necessitated the adoption of axioms of choice that are not well grounded in psychological reality.

A New Orthodoxy?

In recent years orthodox economics has exhibited an impressive eclecticism. Most notably, New Keynesianism recognizes that asymmetries of information and market power have important ramifications for market outcomes; and behavioral economics, on

some interpretations, undermines the conventional theory of how economic actors make choices in the market. These changes have led commentators like Colander, Holt & Rosser to argue that mainstream economics is now broad enough to encompass most of the claims that non-orthodox economists want to make. The present paper critically evaluates that assertion. The Robbinsian conception of economics as the study of choice subject to constraint no longer applies to much work at the leading edge of the discipline, and it is now difficult to identify the defining characteristics of contemporary economics. This creates an opening for dissent similar to the one that existed in the mid-19th century. The issue now is how best to exploit that opening. Colander, Holt & Rosser suggest that heterodox economists ought to lay down their cudgels, make peace with the orthodox tools, and enter the newly enlarged tent of orthodoxy. A better approach may be to utilize the enlargement of the tent to re-enter the discourse *on our own terms*—acknowledging what is defensible in orthodoxy, while making the case that alternative approaches have something at least as useful to say.

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