

# **Title: Identifying constraints in economic theory**

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## **ABSTRACT**

The issue of constraints is generally taken for granted in mainstream literature and rarely explicitly examined in heterodox literature. The paper attempts to clarify the concept of constraint as it is employed in different theoretical approaches and examines the consequences of these different approaches for empirically grounded economic explanations.

Standard equilibrium analysis tends to assume a world where resources are fixed and fully utilised. Hence the resource endowment is the primary constraint, although impediments may also be identified which affect the allocation mechanism. By contrast, Post Keynesian analysis is concerned with greater utilisation of resources, at least in the short run. Open systems, such as the latter, may be more adequately explained in terms of constraining tendencies, rather than resource constraints. These constraining tendencies are intrinsic to the system as they are generated by its processes. The existence of countervailing mechanisms in open systems means that constraining tendencies are unlikely to be consistently manifest.

These different conceptions of constraints appear to require different approaches to the empirical component of economics, with implications for interpreting relationships in terms of economic theory and locating relationships in the data. While conventional econometric analysis has attempted to by-pass the difficulties of the identification problem and indeterminacy, heterodox theory purports to be guided by explanatory power. The paper attempts to employ the latter approach in examining the financial openness of countries.

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