

## *Symposium on Reorienting Economics* (Part VII)

This is the last of 10 papers in this journal's *Symposium on Reorienting Economics*, which has taken Tony Lawson's book *Reorienting Economics* as its focal point. These papers together with Lawson's replies to each (heretofore unpublished) will be published late in 2007 by the University of Michigan Press under the title *Tony Lawson and His Critics*. The contents of this collection can be viewed at <http://www.paecon.net/PAEReview/LawsonandCritics.htm>

## The Nature of Heterodox Economics

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Tony Lawson's critique of mainstream economics is that it is everywhere formalistic and deductive, that this leads it to a closed systems approach based on identifying social event regularities, and that this is inappropriate strategy for dealing with the subject matter with which economics is concerned (Lawson, 1997, 2003). Heterodox economics is then distinguished by its rejection of all this and by its commitment to an ontological analysis that takes social reality to be intrinsically dynamic or processual, interconnected and organic, structured, exhibits emergence, and includes value and meaning and is polyvalent (Lawson, 2006, pp. 495-6). Broadly, I agree with these conclusions. My concern is that they may be truer of economics circa 1980, and neither fully capture the state of economics since then, nor provide us a sufficient understanding of the current direction of development of economics. I have previously argued that in the last two decades the economics research frontier has undergone significant transformation associated with the emergence of a collection of new research strategies, most of which criticize traditional neoclassical assumptions and originate in other sciences (Davis, 2006c; also cf. Colander, Holt, and Rosser, 2004). Here, however, my goal is to discuss heterodox economics, or more specifically, the changing nature of heterodox economics and its changing relation to orthodox economics. I will argue a view I believe is largely contrary to Lawson's, namely, that: (i) that heterodox economics is more heterogeneous than he and many others believe and moreover heterogeneous in ways generally not recognized by many who see themselves as heterodox, (ii) that the reference of the term 'heterodox economics' is quite different from what most economists, heterodox and orthodox, believe it to be, and (iii) that understanding this heterogeneity is important for understanding the direction of development of current economics.<sup>1</sup>

### (i) The heterogeneity of heterodox economics

Lawson and I agree that heterodox economics is a dynamic, changing phenomenon. He thus asks

whether there exists a (set of) trait(s) or causal condition(s), etc., that these [different heterodox approaches] hold in common .... For if there is a set of characteristics by virtue of which any tradition qualifies as heterodox ... it is presumably included among the features, if any, that the often very differently oriented traditions share (Lawson, 2006, p. 484).

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<sup>1</sup> A fuller statement of many of the arguments here can be found in Davis (2006b).

I argued at the 2003 Kansas City ICAPE conference (Davis, 2006a) that what most people identify as heterodox economic approaches (excluding neo-Austrian economics and related research programs) shared three specific commitments circa 1980:

1. rejection of the atomistic individual conception in favor of a socially embedded individual conception
2. emphasis on time as an irreversible historical process
3. reasoning in terms of mutual influences between individuals and social structures

These three commitments also differentiate or draw the dividing line between orthodox or neoclassical economics and heterodox economics circa 1980. But neither this snapshot point-in-time contrast and identification of standard heterodox commitments, nor Lawson's focus on heterodoxy's shared commonalities, tells us very much about the dynamics of change in economics, particularly as concerns the changing relationship between what counts as orthodox and heterodox economics not just recently but also across the long history of economics. To understand these dynamics, I believe it is necessary to develop a more complex, structural analysis of heterodoxy and its relation to orthodoxy that, as in point (2) above, emphasizes the historical development of economics and changing nature of this division.<sup>2</sup> This structural analysis takes *research approaches* as its main units of investigation, and then examines four different ways in which both orthodox and heterodox research approaches *originate* as orthodox and heterodox respectively, and two ways in which heterodox approaches *orient* toward economics as a whole. This makes it possible to classify different research approaches as different types of dynamic phenomena that are distinguished according to their different *sources* and *directions* of development, and then go on to talk about the nature of economics as a whole in terms of how these different approaches interact. Here the analysis is applied to postwar economics, but the history of economics offers many other examples of episodes of transition regarding what counts as orthodox and heterodox that can be analyzed using this framework.<sup>3</sup>

Regarding how orthodox and heterodox approaches originate, the four cases set out here are formulated from the heterodox perspective in terms of how particular approaches *become* heterodox, though the framework also describes how other approaches become orthodox. In Davis and Sent (2006) these four cases are termed *origin stories*. Thus, heterodoxy arises because of:

1. Failure to become orthodox following a period of pluralism
2. Loss of the status of orthodox when a new orthodoxy emerges
3. Failure to redirect orthodoxy from outside orthodoxy
4. Failure to redirect orthodoxy from inside orthodoxy

I suggest that institutionalism might be taken as an example of (1), post Keynesianism is an example of (2), Marxism and radical political economy are examples of (3), and social economics and feminism are examples of (4).<sup>4</sup> Orthodoxy's origin stories, in contrast, are

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<sup>2</sup> In Davis (2006b) I argue that a division between orthodox and heterodox is characteristic of some fields – economics being one of them – but that others employ weaker divisions between standard and unconventional.

<sup>3</sup> For example, two other important periods of transition are late nineteenth century British political economy and interwar US economics.

<sup>4</sup> For further discussion, see Davis and Sent (2006).

stories of success rather than failure. Thus the reverse of case (1), becoming orthodox following a period of pluralism, might be taken to be the story of neoclassicism's origins in the contest with institutionalism during the period of interwar pluralism (cf. Morgan and Rutherford, 1998), case (2), the successful substitution of one orthodoxy for another, might take the rise of postwar formalist neoclassicism and rejection of prewar psychologism as an example, case (3), the successful redirection of orthodoxy from outside orthodoxy, might take the rise of game theory as an example, and case (4), the successful redirection of orthodoxy from inside orthodoxy, might take the ordinalist defeat of cardinalism as an example.

Whether the interpretation of these examples is correct, of course, is subject to debate by historians of economics. Nonetheless, the history of economics seems to tell us that there are different types of origin stories for different research approaches in economics, and thus that what most people take to be heterodox economics exhibits considerably more heterogeneity when seen from this dynamic perspective than appears to be the case when point-in-time comparisons between different approaches are made.

But my argument regarding the nature of the heterogeneity of heterodox economics also addresses different heterodox approaches' *orientation* toward economics as a whole. Using a simple structural distinction between orthodox and heterodox as one between core and periphery, I suggest that heterodox approaches orient either inward or outward, that is, toward the orthodox core of the field or away from it toward the periphery of the field, where we find the field's boundaries and points of contact with other sciences.<sup>5</sup> Orientation toward the field's core is associated with challenging the core's own principles from the vantage point of those *same* principles. An example might be feminists' efforts in the 1980s to introduce the sexual division of labor into Gary Becker's models of the household. Orientation towards the field's periphery is a matter of placing emphasis on principles closer to other sciences beyond the field's boundaries, principles moreover which appear at any given point in time to be clearly not part of the field's core. An example might be post Keynesianism with its emphasis on uncertainty and path-dependency. Again, the examples may be debated, so that the emphasis here rests rather on differentiating heterodox approaches according to their main orientations (allowing that any approach involves a combination of inward and outward orientations).

Heterodox economics is heterogeneous, then, because different approaches differ in the ways that they combine different origin stories and different orientations. Their origin stories and orientations, that is, distinguish their different dynamics, and accordingly serve to place their point-in-time shared commitments in historical context as temporary and transient states of affairs. This is not to say that the shared commitments of different heterodox economics approaches and differences with orthodoxy circa 1980 are insignificant. But it does suggest that they may not identify the ways in which critique and change in economics influence the relationship between what counts as orthodox and heterodox, since on the analysis here shared commitments do not drive work within the different heterodox approaches. Indeed the implication of this treatment of heterodoxy is that often temporary structural alignments between different heterodox approaches associated with perhaps accidental shared pathways are the more likely source of change in the relationship between orthodoxy and heterodoxy. How, then, does this all apply to economics post-1980?

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<sup>5</sup> Heterodox approaches can also change their orientation over time. I also assume orthodoxy only orients toward the core of the field, and does its best to ignore if not suppress heterodoxy (see Davis, 2006b).

**(ii) Heterodox economics post-1980**

I take 1980 or thereabouts to be significant for economics in that a number of new research programs began in various ways to be recognized in the mainstream. These include game theory, behavioral economics, experimental economics, evolutionary economics, neuroeconomics, and complexity economics. Other new approaches and combinations of these have emerged in their wake. With the possible exception of game theory, however, none of these new approaches has yet come to be regarded as orthodox. Orthodoxy typically requires moving from being purely a research program to being a well-established teaching program, where changes in teaching work their way from top downward through the social hierarchy of universities and top programs. Neoclassicism, of course, still dominates economics teaching (though this dominance has become more uneven as courses in experimental economics and non-linear simulation techniques are added to more and more department curricula).

But if these new research programs in economics are not orthodox, what are they? I have argued (Davis, forthcoming) that these new research programs taken as a group – though not individually – accept in varying degrees all three of the commitments of heterodox economics listed above. As these three commitments in my view and that of many others also constitute the dividing line between orthodoxy and heterodoxy circa 1980, these new research programs taken as a group must thus be by definition heterodox. Of course, this conclusion is not one that those who traditionally regard themselves as heterodox are in many cases inclined to accept. I believe there are two grounds for this, one that is reasonable and one that I think is not.

The reasonable grounds concern the nature of the attachment that the new research programs exhibit to the three principles of heterodoxy. Though they appear as a group to accept all three principles, no single program, it is can be argued, ought to be regarded as heterodox unless it accepts all three.<sup>6</sup> This is a fair response if the standards of heterodox economics circa 1980 are to be thought good for all time. But if we accept that what counts as orthodox and heterodox is historically changing, then, as reasonable as this response may seem to many today, it seems we should also be open to the reconstitution of what counts as heterodox. Indeed, *prima facie* the new research programs in economics are heterodox in virtue of their origins *outside* of economics in other sciences. It would be a mistake, I think, to claim that the understanding of science in other fields is essentially same as it is in economics, since why otherwise are there different sciences? Thus the emergence of the new research programs in economics presumably imports new science principles into economics. Examples include behavioral and neuroscience foundations for choice, graph-based network analysis, experimental techniques, and non-linear, non-equilibrium simulation methods. Identifying these developments as heterodox is not to say, of course, that they represent those heterodox principles most valued by those individuals who currently self-identify themselves as heterodox. Nor is it to say that these are all necessarily valuable principles for economics. The main point, as emphasized in Davis (2006c), is that what has come into economics from other sciences cannot be orthodox, at least at the outset.

The argument, on the other hand, I believe to be unreasonable for questioning the status of the new research programs as heterodox is a sociological one. Individuals in the new research programs seem to have two social characteristics. First, they frequently occupy

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<sup>6</sup> In fact some versions of complexity economics can be argued to accept all three principles.

stronger professional locations than those traditionally known as heterodox. Second, they do not consistently hold left-of-center political orientations, as do those traditionally known as heterodox (excepting neo-Austrians). Thus the inference is that they must be mainstream rather than heterodox. While as a traditional heterodox economist, I am sympathetic to both of these complaints vis-à-vis the mainstream, it seems to me that they confuse concerns with openness in the profession and progressive politics with what is involved in characterizing the difference between orthodoxy and heterodoxy in the subject matter of economics. No doubt the two issues are not completely separate, but nonetheless they also do not clearly line up when we are trying to understand the dynamics of economics as a field. The effect, moreover, of thinking sociological factors define heterodoxy is to continually reinforce the idea that there is but one single and unchanging definition of heterodoxy – circa 1980. Such a conviction in my view not only misses the dynamic relationship between heterodoxy and economics. It may also be argued to be anti-pluralist if it underlies an unwillingness to consider what else might not be orthodox in economics, if not traditionally heterodox.

What is the significance of these conclusions, then, for thinking about heterodoxy and the future development of economics?

### **(iii) Contingencies in the future of economics**

The argument of the previous section is that heterodox economics post-1980 is a complex structure, being composed out of two broadly different kinds of heterodox work, each internally differentiated with a number of research programs having different historical origins and orientations: the traditional left heterodoxy familiar to most and the ‘new heterodoxy’ resulting from other science imports. This complex structure, perhaps not surprisingly, is one in which there is relatively little cross-communication *across* the two types of heterodoxy, whereas there is considerable cross-communication across research programs *within* each of these two heterodoxies. I think there are a number of reasons for this, one being – and one not to be underestimated – the social effects of the opprobrium cast upon heterodoxy *per se* in fields with strong orthodox-heterodox divides, where economics is one of the worst offenders.<sup>7</sup> At the same time, it is still odd on the surface that there is little cross-communication between these two broad groupings, since both share a number of critiques of mainstream neoclassicism, and accordingly I want to suggest a reason for this lack of broader communication in terms of the origins and orientations analysis above, which has implications for prospective heterodox strategies vis-à-vis orthodoxy.

On the origins side, all of the new research programs in economics – the ‘new heterodoxy’ – exhibit origin story (3); that is, as research programs *inside* economics drawing on principles originally developed *outside* economics, they are all still unsuccessful attempts to redirect economics orthodoxy from outside orthodoxy. On the orientations side, all of these new research programs in economics display an inward orientation; that is, they largely aim to change the principles reigning in orthodoxy, and do not aim to substitute new ones altogether (ironic though this may seem with their outside economics origins).<sup>8</sup>

By comparison, it seems to me that perhaps the only traditional heterodox research program that shares this particular combined origin and orientation is neo-Ricardian

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<sup>7</sup> Though much the same can be said of the system of social exclusion practiced in political science.

<sup>8</sup> This point requires more argument than can be given here, and essentially involves a case-by-case examination of the new research programs.

economics. Ricardian thinking has been heterodox and in the periphery of economics since marginalism supplanted classical economics. It only became an actual heterodox movement, however, after the failed attempt to redirect orthodoxy associated with the Cambridge capital controversies inspired by Sraffa's work. Also, neo-Ricardianism retains an inward orientation in that its conceptual elaboration is aimed at redeveloping and revising the framework and categories of general equilibrium theory, which are part of the orthodox core.

Of the remaining traditional heterodox research programs, the few that share periphery origin stories are all oriented toward the periphery of economics. Traditional forms of Marxism plus newer approaches such as the Re-thinking Marxism school of course want to see change in economics, but they are not interested in engagement with orthodoxy, addressing it only in critique to set off entirely different frameworks that favor closer connections with what goes on outside of the boundaries of economics. Other traditional heterodox approaches that have different origin stories are all also outward-oriented. It is not revision and adjustment of the core that drives them, but its wholesale abandonment. Feminism may be an exception, since with many of its representatives having had neoclassical beginnings – thus origin story (4) – revision and adjustment of the core is still entertained by some, though this seems to have become a minority and declining position.<sup>9</sup>

Thus the state of affairs in economics as a whole is that orthodoxy has come into question – here I agree with Lawson – but that the two heterodox groupings both interested in changing the field have almost entirely different views about how this should happen, and accordingly have little to say to each other. Which is the correct scenario then? Most of traditional heterodoxy has clearly bet on a big scientific revolution; the new heterodoxy is rather intent on chipping away at the core on a gradualist schedule. Either scenario could be correct, but I imagine that if even most traditional heterodox economists had to make a prediction about the nature of possible future change, they would be skeptical about there being a revolution within any future they can foresee.

If this is true, then traditional heterodox economists have two choices. They can maintain their outward-orientation, so that if change occurs in economics it will likely be on the terms determined by behavioral economists, experimentalists, and others in the new approaches. The risk here is that these movements may become more conservative as their success at influencing the core improves. Alternatively they can reverse their orientation, and turn to trying to shift what exists in the core, looking for allies in the 'new heterodoxy' along the way, so as to improve the chances of successful change for both.<sup>10 11</sup>

Lawson's view of heterodoxy, in my view, does not allow this choice to emerge. As a point-in-time, shared characteristics conception, it misses the heterogeneity and dynamics of heterodoxy, both traditional and new. Moreover, by asserting, "there is a set of characteristics

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<sup>9</sup> Part of the ambiguity here concerns many feminists' attachment to Sen's capabilities framework, which was an inward-oriented strategy outside the core at the outset – and a case (4) heterodox origin story – but may be evolving toward an outward oriented one.

<sup>10</sup> There are heterodox economists who have come to this conclusion, for example, followers of SABE (Society for the Advancement of Behavioral Economics), which has links to traditional social economics, and a number of proponents of evolutionary economics, which has links to institutional economics.

<sup>11</sup> My own research strategy, accordingly, has been to take a principal core concern – individualism – and seek to push it from atomism to social embeddedness or a relational conception, thus an inward orientation aimed at changing the core, rather than to argue for holism, an outward orientation aimed at introducing a new principle into the core. I should add that my own personal taste is for a more outward orientation and greater dialogue with other fields, and that I identify with traditional heterodoxy for this reason. But as a matter of practical strategy I recommend an inward orientation.

by virtue of which any tradition qualifies as heterodox” (Lawson, 2006, p. 484), and by associating these shared characteristics with the rejection of the core of economics, he counsels an outward orientation. And with the recommendation of an outward orientation, he bets on the unlikely big scientific revolution, so that, should traditional heterodox economists in any great number accept his advice, the chances of gradual change in economics being more conservative are increased.

Note that if change does occur in economics in a gradual way, this does not rule out that it ends up being far-reaching. One way to see this is to take further stock of the nature of the new research programs. Thus if one characterizes the new research programs in economics as primarily synchronic (behavioral, experimental, game theory, etc.) or diachronic (evolutionary, complexity, etc.) in nature, the possible differential success of these programs in any process of change in economics paints out two basic kinds of redevelopment pathways for the future, one more conservative and one more transformative. The reason for this has to do with the differential attachment of the new research programs to the three commitments above that draw the dividing line between orthodox and heterodox economics circa 1980. Basically, diachronic programs go deeper in the changes they seek to bring to the core by including principles (2) and (3), whereas the more synchronic programs principally aim at principle (1). The moral in all this, then, seems to be that the alliances between traditional heterodoxy and ‘new heterodoxy’ likely to have the greatest impact on economics lie along the axis of principles (2) and (3). In my view, however, success in changing orthodoxy along these lines also implies change in principle (1), though success in changing orthodoxy solely in terms of principle (1) may well leave the other principles unchanged, and would probably imply a very modest departure from the atomistic individual conception.

I conclude with a brief comment about ICAPE, the International Confederation of Associations for Pluralism in Economics. Though most traditional heterodox economists know what the acronym means, it is not clear what they take pluralism to mean. For many it seems to mean an open stance toward the different heterodox research programs associated with ICAPE that seeks to promote a unity within difference. This stance seems to me to be shortsighted and anti-pluralist in important respects. But I agree with Lawson that the vitality of traditional heterodox economics “is alive and flourishing” (Lawson, 2006, p. 483). And just as new ‘traditional’ heterodox research programs have emerged since 1980 (for example, feminism, the Re-thinking Marxism school, new evolutionary currents, SABE, and others), it seems we should expect this dynamic process to continue in the future, hopefully to increasingly make ICAPE an increasingly pluralist organization in strategy as well as membership.

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