

## **Heterodox economics and the history of economic thought**

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*This is probably all one can ask of history, and of the history of ideas in particular: not to resolve issues, but to raise the level of the debate. (Hirschman 1977, 135)*

The declining role of the history of economic thought (HET) in university research and teaching has been increasingly under debate. Many historians often recall the relationship between HET and heterodox economics (HEC), considering it as a strength of HET and/or one of the reasons for its damnation among mainstream economists. In this contribution we reconsider the reasons for such connection focusing on the converse and less debated side of the issue—that is, the role of HET for and within HEC.

Such a topic seems a fitting theme for a tribute to Frederic Lee, who shares with us both heterodoxy and an active interest in HET. He even combined these elements in his research on the history of heterodox streams of economics (see Lee 2009). It is also a way of recalling the first meeting of both authors with Fred: with Alessandro Roncaglia, the lecture hall of a course in HET in the Fall semester 1978, when Alessandro was a visiting professor at Rutgers University and Fred was a research student; and with Carlo D'Ippoliti, at a conference on the impact of journal and department rankings on heterodox economics, organized by Fred and Wolfram Elsner at the University of Bremen.

In the following section we consider the main reasons that HET and HEC are often practiced together. We then proceed to delineate why, in our view, they should mutually reinforce each other, by briefly reviewing the debate on the existence of

different streams of heterodox economics. We suggest in this section that the history of economic thought can play a crucial role in precisely defining a program of research and thus in defining the scope and limits of heterodox economics. In what follows we highlight our own perspective on how HET should play such a role, by shortly recalling the paradigmatic contrast in price and value theory between the marginalist and the Classical-Keynesian approaches. Our ‘mundane’ conclusions will instead recall a number of more “tactical” reasons for forging pluralist alliances between historians of economic thought and heterodox economists.

### **A longstanding liaison: history of economic thought and heterodox economics**

The close connection between heterodox economics and the history of economic thought is a literary *topos* among scholars in the latter field. For example, Blaug (2001) claims that there are two types of like-minded economists: those originally attracted by the mathematical mastery of social phenomena, and those inclined to philosophical research on these phenomena. In his view heterodox economists and historians of economics share the latter approach and thus find themselves reflecting on similar topics, meet at certain conferences, often happen to be the same people. Weintraub (2002b) adds that

the traditions of heterodox economics utilize historical argumentation in ways quite different from the practices of neoclassical economists ... in the way that game theorists would not appeal to a point of interpretation in *The Theory of Games and*

*Economic Behavior* in order to assess the merits of a particular form of an auction.

(8)

At the same time, he notes, the history of economics community has been a “big tent” and even a “welcoming tent” for heterodox economists (Weintraub 2002b, 8). But while the expedience and relevance for HET to include heterodox perspectives has been frequently discussed (including in the essays contained in the mentioned Weintraub 2002a), the importance of HET for heterodox economics has mostly been taken for granted, often without adequate reflection. In fact, in the passage quoted above Weintraub might be read as suggesting that heterodox economists make use of HET in order to ‘appeal to authority,’ while orthodox economists are content with theoretical argumentations. This would involve a subtle suggestion that heterodox economists cannot find sufficient support in open scientific confrontation. It hardly needs reminding that such interpretation would be gratuitous—suffice here to recall the theoretical import of the Sraffian critiques to Marshallian U-shaped cost curves, which are notwithstanding still utilized by mainstream economists in many applied fields, or the results of the Cambridge-Cambridge debates of the 1960s-1970s on capital theory, whose results should have implied the abandonment of most of mainstream (one-commodity) macroeconomics.

Indeed, it is undeniable that some scholars—both mainstream but more often heterodox— make direct or indirect use of the principle of authority on rhetorical grounds (even if, of course, such approach cannot be recognized as a decisive scientific argument). Thus, for instance it is commonplace to recall the historical analyses and

discussions by several founders or pioneers of various heterodox schools of economics, from Thorstein Veblen to Piero Sraffa and back to Karl Marx, encompassing John Maynard Keynes as well as Joseph Schumpeter.<sup>1</sup> These economists who significantly departed from the mainstream of their contemporaries felt compelled—probably because of their ‘heresy’—to trace a heritage line of their ideas with some prior tradition or great thinker. In turn, they have then inspired fellows and followers to engage an economic argument historically and often to actively work in the history of thought.

However, several historians—not only mainstream ones—have complained that this tendency appears to be related to a ‘whiggish’ approach to HET. One could say that as much as for mainstream-inclined historians of economics the risk is to see the history of the discipline as a smooth process of error removal, for heterodox-friendly ones the risk is to only see the past as a goldmine of promising untaken roads. These sources of bias may in some cases even produce misrepresentation and/or misinterpretation of economic ideas. Marcuzzo and Rosselli (2002) aptly characterize these approaches to HET respectively as the “quest for ascendancy” vs. the “quest for alternative.” Thus, narrating whiggish histories is not a heterodox-specific risk, and scientific practices such as good faith interpretation of the texts and proper textual exegesis enable doing history with an eye to the present without necessarily producing a bias, thus enabling good history and good economics.

However, such a larger role of historical argumentation within heterodoxy is not an unintended byproduct of the interests and needs of its founding fathers. Without accepting the appeal to authority as a ground for accepting or rejecting an economic argument, there are several reasons why heterodox economists develop an interest in or

actively practice HET, and some such reasons show that they very appropriately do so. In the rest of this section we discuss the (descriptive) reasons for we think they *do*, while in the following sections we set out our argument on why they *should* engage with HET.

A crucial explanation for the larger appeal of HET among heterodox economists rests, as it is well known, in the respective methods and contents of mainstream and heterodox economics. Mainstream economics, at least since the post-World War II period, has become almost exclusively interested in mathematical formalization and econometric estimation of evermore specific and narrow models.<sup>2</sup> Heterodox economics still regards history as a useful tool of analysis, rather than a specialist object of investigation. Some heterodox schools, by denying that a single all-encompassing mathematical model can explain everything that we are interested in (e.g. because they reject “long causal chains” as Keynes did, or because they refuse mathematics altogether), necessarily require a comparison and integration of several pieces of theory as the only way to discuss economics and economic policy. For example, Dow (2002) considers the case of Post Keynesian economics. As she underlines, Post Keynesians, like other economists who believe the economy is best thought of as an open non-ergodic system, are bound to think that, to use Sylos Labini’s (2005) term, economic theory is “historically conditioned.” As social systems evolve, the appropriate theory to represent a certain phenomenon must evolve too. Therefore, plurality in methods including HET must be a deliberate choice. But for Post Keynesians and other heterodox economists who seriously consider the pervasiveness of uncertainty the reason is more specific. Uncertainty, as different from probabilistic risk, renders the tools of equilibrium analysis

of little practical relevance, and conversely makes the recourse to history useful. This applies not only to economic history, but to the history of economics too:

history of thought plays a constructive part by informing modern economists of the choice of methods and theories made by their forebears in different circumstances. The wider the knowledge of other contexts, the greater the capacity to develop the art of choosing methods and theories appropriate to the problem at hand. (Dow 2002, 330)

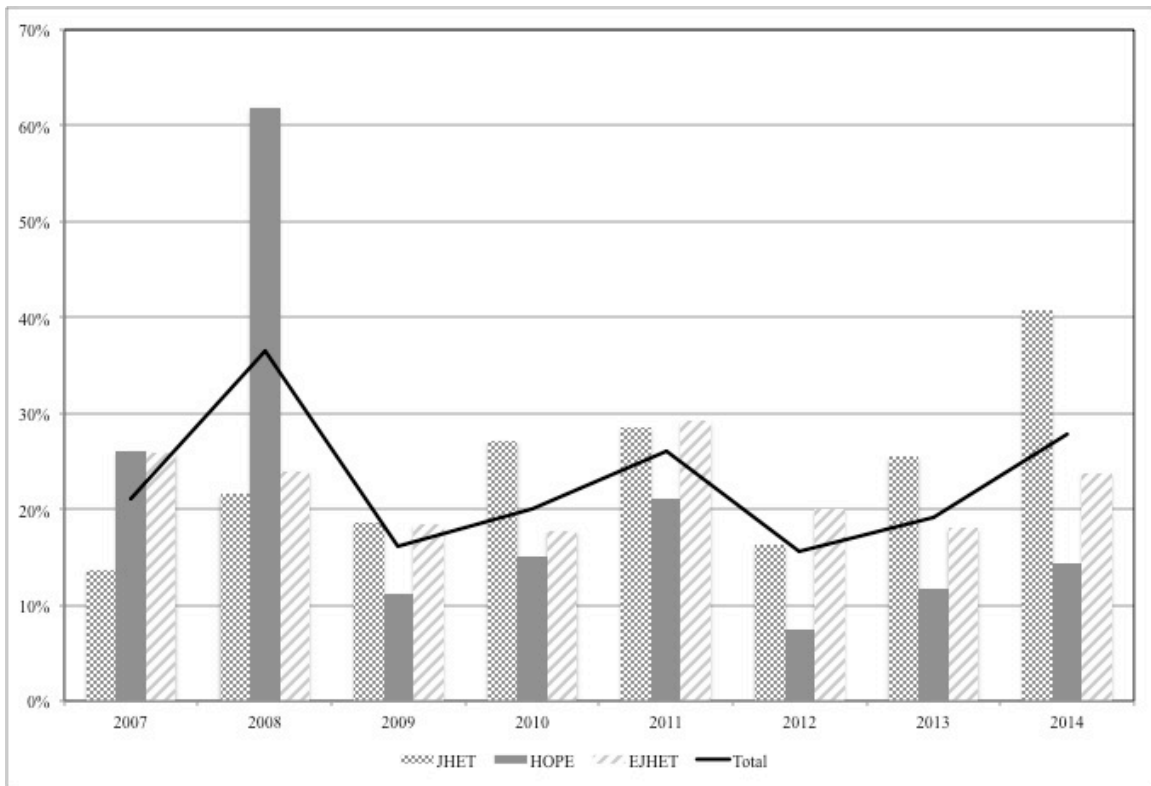
There are also sociological reasons for the longstanding liaison between HET and HEC. The strongest is possibly the academic marginalization and even the risk of survival suffered by the economists who practice any of the two fields. As Fred Lee documented for the cases of the USA and the UK (Lee 2009; Lee et al. 2010a; 2010b; 2013; Elsner and Lee, 2010), the institutional pressures towards the eradication of every sort of economics deviating from mainstream model building or econometric estimation have considerably grown in the past decades. HEC and HET both suffer from the use of research assessment exercises and monodimensional rankings as ‘theoretical police’ devices. We have documented a similar, if not cruder, trend in Italy (see Corsi et al. 2010; Pasinetti and Roncaglia 2010), and the same has been done in Australia, France and elsewhere, through such enforcement instruments as biased bibliometric-based research evaluation,<sup>3</sup> journal and university rankings, funding bodies policies, and even the attempt to place certain fields of inquiry out of the official classification of what constitutes ‘economics’ at all (Kates 2013).

A second sociological reason is the aim, especially strong among heterodox economists, to clarify the origins and foundations of a certain line of thought and sharpen the ‘identity’ of a certain school or approach. Indeed, this reason may underlie a minimum degree of interests for HET even among mainstream economists. Gordon, Viner, and Schumpeter among others used to claim that any economist stands to profit from a certain knowledge of the past of its discipline, especially of what, following Schumpeter (1954), we may define the history of economic analysis. Not because, in their view, theories of some dead economists are still fecund today but, especially for students and younger scholars, to use Schumpeter’s words, “in order to prevent a sense of *lacking direction and meaning*” (Schumpeter 1954, 4, italics in original). As we already noted for the pioneers of heterodox approaches, a sense of the ‘big picture’ is even more necessary for those who do not wish to follow the mainstream. In the current hostile environment it may indeed prove useful, again especially for students and younger scholars, for the psychological advantages of referring to a community identity.

Finally, it is worth mentioning a further trend. With the 2007-8 economic crisis and the ensuing European crisis, a certain interest for the economic debate has grown in the public discourse, and this may have encouraged a stronger emphasis on the analytical and predictive failures of mainstream economics, to be discussed both from a historical and a heterodox perspective (see, for instance, Roncaglia 2010; D’Ippoliti, 2011a; the debate still goes on by courtesy of the ongoing European crisis). However, a first look at rough bibliometric data does not seem to signal this debate as a reinforcement mechanism of the links between HET and HEC. For example, when considering the share of heterodox papers in the top three HET journals, no increasing trend emerges in the years since the

crisis erupted (see Figure 1.1). Thus, the crisis does not seem to operate as an exogenous source of further integration between HET and HEC.

Figure 1.1 Heterodox-related entries in the top three HET journals



Note: Authors' calculation. Numbers percents of HEC-related entries out of the total number of articles published in each journal. The journals included are *European Journal of the History of Economic Thought* (EJHET), *History of Political Economy* (HOPE), and *Journal of the History of Economic Thought* (JHET). Journal entries include research papers, replies and book reviews.

However, independently of considerations that belong to the sociology of the profession, we wish to highlight a major *theoretical* ground for the happy marriage of HET and HEC, whereby heterodox economists stand to profit from HET comparatively more than mainstream economists do. This ground is the instrumental use of HET in clarifying the conceptual foundations of different economic theories. However, to clarify



this point it is necessary to briefly discuss some aspects of the debate on the definition of heterodox economics and its relation to the mainstream.

### **The heterodox field is not a monolith**

The previous discussion assumed a sufficiently clear (even if not rigidly defined) and a unanimously agreed idea of what heterodox economics is and where its borders are. So far, even after a few decades of debate, opinions are still divided on the subject (see Elsner 2013; Lee 2012). As we will show in this and the following sections, discussions and analyses in the history of economic thought may help define precisely what a certain author means by mainstream or heterodox economics, how they define both and their boundaries, and hence their relative standing.

Some non-mainstream economists, as diverse as Deirdre McCloskey, Robert Prasch and Jan Kregel, prefer avoiding the term “heterodox” altogether. In turn, many heterodox economists react by questioning how ‘truly’ these authors belong to the heterodox field. In our view, it is pointless to vet ‘candidates’ to a supposedly pure belief. Moreover, it cannot be doubted that several authors who cannot be labeled as mainstream consider it counter-productive to use a name that signals a minority status and possibly a lack of unity apart from the refusal of the mainstream. Such objection indubitably has some merits at least on the rhetorical and strategic ground that is irrespective of the truth of these accusations. Concerning the latter, it must also be noted that many economists, both sympathetic to heterodox approaches and not, denounce the political, theoretical and methodological divisions between several heterodox schools and approaches.

Indeed, some heterodox economists consider several heterodox approaches as ‘special cases’ of their own, supposedly more general (e.g. Davidson 2004). Others consider only few approaches among those often enlisted as ‘heterodox’ to be correct, the other approaches being as wrong as mainstream economics is (as it turns out, we might be included in this category, as discussed below). As Dobusch and Kapeller (2012) point out, bibliometric and citation patterns show how divided is the heterodox community in the scientific debate, with heterodox schools not “talking to each other” very much. According to their data, the typical engagement with extant literature by a typical heterodox economist is (in order of frequency): 1) cite your school, or yourself; 2) cite the mainstream, presumably to criticize it; and 3) only occasionally, cite other heterodox schools.

For these and other reasons, several economists consider ‘heterodox economics’ as a residual term: a collection of disparate, disconnected schools that only may be united by the common opposition to the economic mainstream. However, even such a definition of heterodox economics is imprecise, since different strands of heterodox economics criticize different aspects of mainstream economics and, most importantly, often some heterodox economists disagree with the criticisms of the mainstream raised by some other heterodox economists. For example, especially since the financial crisis erupted, some economists focus on the political/ideological role of mainstream economics in support of neo-liberal policies (we ourselves share this opinion: see the abovementioned Roncaglia 2010 and D’Ippoliti 2011a). Against this claim, for example, Lawson (2013) strongly denies that mainstream economics serves any such political role, or that in any case this should be taken as its distinctive feature, because in his view “far from being a

conspiracy or a uniformly misled project, mainstream economics lacks agreement even as to the project's purpose or direction" (10). On this point, while we recognize that mainstream economics often plays an important ideological role in support of very conservative political stances, we agree that it is not the political implications that should be the prime object of criticism, because these implications rather descend from erroneous theoretical premises.<sup>4</sup>

However, to highlight how heterodox economists disagree even in their criticisms of the mainstream, it may be worthwhile recalling that the same Lawson (2003) singles out the refusal of mathematics and of closed systems as, in his view, the necessary distinctive feature of heterodox economics and its prime critique against the mainstream. Evidently, this stance must be rejected by several other heterodox economists who would otherwise be relabeled as mainstream due to their adoption of closed systems and/or mathematical tools (e.g. some Sraffians and Post Keynesians). In our view Lawson's position confounds here the analytical tools with the use they are put to. In a sense, rejecting mathematics is equivalent to rejecting logic. A formal model that might be considered to represent a 'closed system' may in fact be part of an open one, when we carefully consider the assumptions on which it relies (e.g., see Section 4 and Roncaglia 2009, for the case of Sraffa's analysis of prices of production).

In the face of this confusion and, especially, of attacks on heterodox economics, as is well known to most heterodox economists of our time, Fred Lee has been very active in defending and building the community of heterodox economics, and in developing heterodox economic theory. He produced a very interesting work, *A History of Heterodox Economics* (2009), which focuses on American and British heterodox

economics in the twentieth century. Fred's argument mostly deals with the institutional and sociological aspects of the profession—academic journals, associations and departments that historically constituted avenues for exchange and gathering of economic dissenters—that what Schumpeter (1954) referred to as a “history of economic thought” rather than a “history of economic analysis” (which mainly concerns the contents of economic theories). To use Fred's words, the importance of a “community study” (Lee 2009, 19) should not be overlooked: “what constitutes scientific knowledge has both a subjective and a “community approval” component” (11, original emphasis). Thus, by demonstrating the past and current openness to mutual engagement in terms of professional, social and scientific activities, Fred is able to show that even if its theoretical corpus is not yet finally defined heterodox economic theory as a shared body of knowledge already exists. Thence his tireless efforts to create and develop places and occasions for cross-approach engagements among heterodox economists of different orientations, efforts of which many of us bear testimony.

Moving from the sociological to the analytical level, Fred has developed and defended a definition of heterodox economics along the following lines:

heterodox economics is a historical science of the social provisioning process ...  
The heterodox explanation involves human agency embedded in cultural context and social processes in historical time affecting resources, consumption patterns, production and reproduction, and the meaning (or ideology) of the market, state and non-market/state activities engaged in social provisioning. (Lee 2012, 340).

Indeed, if one was to delimit heterodox economics on the basis of this statement only (undoubtedly no definition can be self-contained and exhaustive, but we are playing the devil's advocate here), such a definition may appear, depending on the interpretation of the several concepts contained therein, either as very narrow or very wide. That is, it runs a concrete risk of encompassing too much, including the whole or part of mainstream economics. For example, Fred's view that "heterodox economics involves agency embedded in cultural context and social processes" is obviously meant to imply a criticism of methodological individualism and of the *homo oeconomicus* construction. However, as Hodgson (2011) notices, if mainstream economics is to be applied to the real world, it must not be interpreted as assuming a society composed of several atomistic and perfectly disconnected individuals, a situation that would be in fact impossible. Rather, the whole social structure that underlies individual behavior must be understood as contained in the explicit or implicit *coeteris paribus* clause of the *homo oeconomicus* model.<sup>5</sup> Thus, the real criticism of mainstream economics is not *if* it considers at all the influence of factors other than price movements on individual behavior, but rather *if* it does so *appropriately*. The problem with *homo oeconomicus* is not that it is not a conceptualization of "agency embedded in cultural context and social processes," but rather that it is a wrong, misleading and unsatisfactory conceptualization.

The same reasoning goes for the rest of the above definition. If we interpret all or most of the concepts therein in their wider sense, that is independently of extant literature or of the history of such concepts and analyses, Fred's definition does not appear to us to properly delimit heterodox economics from mainstream economics. Virtually, any open minded economist, be she mainstream or heterodox, may agree that Fred's definition

reflects what she does. Thus, the importance of studying the development, meaning and uses of a concept within certain communities of scientists—precisely the job the history of ideas does. Specifically, by ‘precise’ versus ‘wider’ sense of the terms involved we first mean the basic need to be precise in scientific terminology. For example, an economist should never talk of “demand” for a commodity unless the meaning of the word is obvious from the context, because such term may puzzlingly mean either the quantity demanded or the demand function. However, perhaps more significantly, concepts too may be employed in different, often conflicting ways. Thus, in our example it is obvious that when comparing, say, the complex conceptualization of human behavior adopted by J. S. Mill with the subjective utility theory à la Jevons, Fred’s reference to “human agency embedded in cultural context and social processes” is obviously meant to include the former but not the latter. But such distinction can only be drawn after a thorough historical reconstruction of the two authors’ conceptualizations of individual behavior.<sup>6</sup>

More to our point here, when applied to the conceptual foundations of an economic paradigm, the historical analysis of these foundational concepts serves to clarify a research program, such as “mainstream economics,” and to distinguish it from other ones.

Thus, in the next section, we aim to show the relevance of the history of economics—especially the history of economic analysis, in Schumpeter’s terms—in allowing us to better clarify the relation of heterodox schools to each other and vis-à-vis mainstream economics. To articulate our position, it is useful to turn to a second, narrower definition of the boundaries of mainstream vs. heterodox economics put

forward by Lee (2009), this time with reference to economic theory. When considering economic analysis, Fred points out that the refusal of neoclassical price theory and its “core propositions, such as scarcity, preferences and utility functions, technology and production functions, rationality, equilibrium, methodological individualism, and positivist and deductivist methodology” is a defining characteristic of heterodox economics (7). In what follows we thus set out to explain why we agree with this second, more restrictive definition of heterodox economics, focusing on the centrality of price and value theory. In other words, we set out to explain why it is best to make reference to a definition of heterodox *economic analysis* (and we agree with Fred’s) rather than a definition of the *field* of heterodox economics.

### **The role of conceptualization in economic analysis**

In chapter 4 of his *History of Economic Analysis*, Schumpeter (1954, 41-42) identifies distinct stages in economic research:

- i) the “pre-analytic cognitive act” or “vision”—that is, a vague vision of the issue to be considered and some tentative hypotheses as to the direction of research;
- ii) conceptualization—that is, “to verbalize the vision or to conceptualize it in such a way that its elements take their places, with names attached to them that facilitate recognition and manipulation, in a more or less orderly schema or picture”;
- iii) model building and, finally,
- iv) the application of such models to the interpretation of economic reality.

What matters to us here is the second stage, which is quite often overlooked, though Schumpeter himself attributes great importance to it. The fact is that model-building and applied analysis do not exhaust the economists' task: as Schumpeter recalled, the very first stage of economic theorizing consists in building a conceptual framework for the analysis; and in this HET is a decisive tool (as one of us argued at length elsewhere; see Roncaglia 2005, chapter 1; 2014).

Quite commonly, mainstream economists overlook the role of this stage in economic research. This is clearly due to the fact that the underlying vision and the conceptualization of the economy is common to all of them (though with different nuances) and is considered as the only possible one. Supply and demand reasoning reigns supreme; differences between streams of mainstream economics are a matter of the framework to which supply and demand analysis is applied—for instance, markets are different in terms of competition and information (e.g., perfect competition, imperfect competition, asymmetric information), but still the same supply-demand analysis is the rule. Thus, it is only these latter aspects that are considered, when reflecting on the conceptual foundations for the activity of model building.

On the other hand, there are profound differences in the visions of the economy underlying, for example, Classical, Keynesian and neoclassical-marginalist economics. In order to understand them, recourse to HET is necessary: it is only when seeking through HET a direct understanding of the visions of the world of a Smith, a Ricardo, a Keynes, a Jevons or a Walras that we can perceive these differences, and the true content of the different concepts referred to in formal analyses of the economy.



Conceptualization, thus, becomes an essential aspect of the economist's work when the vision that the researcher is trying to develop differs from the visions adopted/developed by other theoreticians—as it is the case for heterodox economists. It is in this stage of work that the theoretician can clarify the distinct character of her/his own representation of the world: not only the relative importance attributed to different aspects of the real world, but also and especially the perspective from which each aspect is viewed. Conceptualization is a complex activity, where for instance the requirement of consistency (which of course still holds) has a different, broader meaning as compared with the formal coherence required by mathematically-framed theories; in any case, conceptualization represents the explicit or implicit foundation for clarifying the connection between such mathematically-framed theories and the real world. For example, a formal model of functional income distribution relies on a class representation of society; the analysis of financial managers' incentives relies on the conceptualization of a managerial (or large corporate) economy, rather than an economy based on small competitive firms.

Underlying the mainstream view on the limited usefulness of HET is a clear (though usually not explicitly stated) assumption, namely that there is but one correct approach to economics. We may label this a “cumulative view” in that economics does change over time, but with steady progress in the understanding of economic reality, piling up new theories and new facts. As mentioned above, the toolbox of an economic theorist may change (for instance, from Marshallian U-shaped cost curves to axiomatic Arrow-Debreu general equilibrium theory), but the underlying pillar—in short, the notion of market equilibrium between supply and demand—remains the same (see next section). From this

viewpoint, the provisional point of arrival of contemporary economics incorporates all previous contributions in an improved way.

The methodological background (often implicit and occasionally unconscious) of the “cumulative view” is a positivist view of science: economic theories based on deduction from first principles (scarcity of resources, agents’ preferences, demand and supply equilibrium) are either logically consistent and hence true, or logically contradictory and hence false; factual statements are once again either empirically confirmed or contradicted. Science progresses as theories and knowledge of facts cumulate. This viewpoint has been supported by mainstream historians of economic thought (e.g., from Jacob Hollander (1904; 1910) to Samuel Hollander (1973; 1979)) through an interpretation of classical economists aligning them with the supply-and-demand-equilibrium view, so that they can be considered as perceptive but defective precursors of later views.

By contrast, heterodox economists commonly embrace a “competitive view” of the development of economic ideas—that is, different paradigms coexist; some come to dominate for a period and then perish, others recurrently reappear; they are subject to a different conceptualization and an update to the spirit of the time. This explains for example the importance of Piero Sraffa’s (1951) reinterpretation of Ricardo (and with him of the whole Classical economists’ approach) as embedded in a different paradigm, which can be succinctly expressed as the “picture of the system of production and consumption as a circular process” (Sraffa 1960, 93). As a consequence, in the 1960s and 1970s the debate between the contending paradigms proceeded along two parallel paths: the “Cambridge controversies” in the theory of capital and distribution (as illustrated for

instance in Harcourt 1972) and debates in the history of economic thought concerning, for instance, the role of supply and demand in the Classical (Smith's or Ricardo's in particular) theory of value and distribution. This historical stream of the controversy is not less important than that in capital theory and was not perceived to be so by most of those involved in both controversies at the time.

### **The price system: the Classical and the marginalist conceptual frameworks**

As mentioned earlier, we agree with Fred Lee on the centrality of price theory for economic *analysis*. As indicated above, price theory (or the theory of value) expresses in a nutshell the conceptualization of an economy. By price theory, of course, we mean here what both marginalist and Classical economists designated as the theory of value, once what most economists (including us) consider to be the metaphysical element—i.e. the quest for the 'nature' or the 'ultimate cause' of value—is left aside. Price theory is central in an economic paradigm because it embodies the vision and conceptualization of the working of the whole economy at its most abstract level. In previous work one of us has proposed the distinction of two paradigms in particular, in the field of price theory (see, especially, Roncaglia 2005).

On the one hand we have an archetypical idea of an economic region or nation, possibly divided between land and city, and with different productive activities taking place simultaneously in different places (e.g. in Cantillon's and Quesnay's analysis, the geographical city-land divide corresponds to the economic distinction between agriculture and industry), and different activities are carried out by different classes of

people. This imprecise, rough vision may be said to underlie the conceptualization of the economy proper of Classical economists (and Sraffa). They posited an economy grounded on the division of labor, where the connection between the different sectors is provided by a necessary web of market exchanges, whereby each sector obtains the necessary means of production for continuing its activity in exchange for (at least part of) its own physical surplus product. Prices here must determine the distribution of the surplus in such a way that production activities can go on indefinitely.

This vision is alternative and in contrast to the other archetypical vision common to many economists: that of the medieval fair or, in modern times, the exchange. This idea corresponds to the conceptualization of the economy as the place in which all producers and all consumers simultaneously meet. Everyone arrives at the marketplace endowed with his or her resources, which s/he wishes to exchange for. Central to this vision are not production activities, but the acts of exchange. As a consequence, if the marketplace functions well, prices here must “clear” the market—that is, they must ensure the equality between supply and demand and all resources must be fully utilized, so that the established equilibrium thus is considered as an optimal one.

Accordingly, we have two different visions of how the whole economy (should) works—that is, two ideas of “equilibrium” in a general loose sense. On the one hand, we have the Classical representation of the economy as “a circular flow of production and consumption,” where prices of production express the relative difficulty of production of the different commodities. In a society based on the division of labor and where the connection between different production activities is mediated through the market, each sector must continuously receive from the other sectors its means of production (and the

means of consumption for its workers) giving in exchange its own products; the exchange ratios that allow for the continuance of production in all sectors imply that each sector obtains a rate of profits not inferior to that prevailing in other sectors.

On the other hand we have the marginalist representation of an economy as a “one-way avenue,” where agents are motivated by maximization of their satisfaction and constrained by the amounts of available resources. In this case, prices are indexes of relative scarcity, mediating (and realizing an equilibrium) between the preferences of economic agents and the availability of resources.<sup>7</sup> As a consequence, the notion of equilibrium between supply and demand is central to the marginalist approach, while in the Classical approach equilibrium simply refers to the assumption of a uniform rate of profits prevailing in all sectors of the economy, and the reproduction of the economy can be obtained even under the assumption of a set of sectorial profit differentials (which is, for example, determined by the size of the barriers to entry into each sector, under oligopolistic conditions).

When economic agents are connected in such a way as to constitute an economic system (an interconnected whole), the mainstream notion of equilibrium between scarce resources and the agents’ preferences is of necessity an all-embracing one. Thus, any economic issue must be tackled as a problem of equilibrium between supply and demand. Also, any ‘partial’ analysis (whereby a specific issue, such as the analysis of an individual market or the behavior of a single agent under given assumptions concerning preferences and constraints, is considered) is bound to be of limited validity, since all sorts of ‘aggregation fallacies’ may arise when such analyses are applied to the interpretation of the economy as an emergent whole.

On the contrary, the problem of value in the Classical tradition is tackled in such a way as to allow for separate consideration of other issues: technological choice and technological change, income distribution, levels of production and employment (with no necessity whatsoever for such levels to imply full utilization of resources and hence full employment), and so on. The analysis of such issues may involve abstract models specific to the issue at hand or historical-institutional analyses, with the possibility of separate use of the different analytical tools but leading to complementarity of the results obtained for the interpretation of the real-world economy.

The ‘separation of issues’ is a necessary aspect for the integration of Classical, Keynesian, institutional, and evolutionary approaches. Such integration should not take the form of the construction of an all-embracing model of the economy, but an openness to consider how the different viewpoints can be integrated in tackling specific issues. Thus, there are no general rules on how such an integration may be pursued (an illustration of how it took place in a variety of ways is provided by Lee (2009, 201); on the Classical-Keynesian integration, see Roncaglia and Tonveronachi 2015).

It should be clear, however, that the possibility of integration does not cover all kind of theories. In fact, as we hinted at, when accepting the distinction sketched here between the two competing visions and conceptualizations of the economy, it is the recourse to analysis based on supply-demand equilibrium which constitutes the boundary of non-inclusiveness. This points to a demarcation between ‘fully’ heterodox theories and ‘apparent’ heterodox theories relying on demand-supply equilibrium analysis and deviating from the mainstream only for the attempt to consider specific aspects of

economic life previously neglected (such as bounded rationality, asymmetric information, increasing returns, but also institutions, the environment, uncertainty, non-ergodicity).<sup>8</sup>

These two very different visions and conceptualization of the whole economy, which necessarily lie (albeit implicitly) beneath any formal analysis, constitute in our view the crucial determinant in distinguishing mainstream economics from heterodox approaches. From what was said above, we hope it is clear that reference to price theory as the crucial milestone of economic analysis does not imply the centrality of the theory of exchange: in the Classical view price theory is a theory of *production and exchange*.

However, we are aware that by adopting this criterion we may in fact delimit the field of what is ‘heterodox’ in a different way from Fred Lee’s (2009; 2012) definition of heterodox economics (not that of heterodox economic theory, though). For example, it is obvious that the Austrian reliance on marginalist price theory implies, in our understanding, its inclusion in the mainstream. More subtly, certain interpretations of Keynes’s and some Post Keynesians’ (such as Minsky) analysis may inappropriately place them in the mainstream field too. This is why it is so important to highlight that Keynes represented the demand for investments as dependent on the entrepreneurs’ expectations, not on some demand function (Roncaglia 2005).

We do not wish, however, to convince every reader of the goodness of our proposed criterion, but rather to demonstrate how the history of economic thought is a major battlefield in which such discussion should take place. Clarifying the concepts of equilibrium, market, price, value, etc. is precisely the way in which one can study other authors’ conceptualization of the economy, and perhaps even try to infer their pre-

analytical vision. This is the most interesting job of HET, and precisely the history of economic analysis, for heterodox economists.

## **Conclusions**

Coming back to Fred Lee, we noted above his two definitions of heterodox economics. We discussed the second, more restrictive definition of heterodox economic analysis, noting that it may be less inclusive and pluralist than the definition of heterodox economics, shared by several heterodox associations and groups (Fred Lee himself has always been aware of this tension between the two definitions). In our proposal, we place the Austrian approach, many evolutionist models, most behavioral analyses, among others, outside the domain of heterodox economic analysis. However, if from the theoretical viewpoint this is in our view the inevitable price of coherence, there is another level at which occasions of academic alliances can and should be as broad and inclusive as possible. This is the “tactical level,” that concerns the profession and role of economists in a world especially challenging many of them (including heterodox economists and historians of economic thought). As is well known, Fred Lee has been very active also on this front and thus it will suffice here to briefly recall the position of HET, by considering the recent experience of the Italian case.

The menace to a downgrading of HET both in teaching and research evaluation arises on two sides. First we have the hostility of mainstream economists towards a research field which stresses the existence of alternative approaches to economics: whether because these are considered irrelevant and/or overcome by most recent



theorizing, or because they constitute a dangerous rival, especially after the financial crisis that showed how naked (and ugly) the Emperor of mainstream economics is, as heterodox economists would contend. Second, there is the preference on the side of some historians of economics with deservedly high repute in the profession for shifting economics out of the field of social sciences, into the field of the ‘hard’ sciences. In this situation, as Kates (2013) stresses, new attacks on HET are likely, and practitioners of this field must be prepared to resist.

One such new episode took place in Italy, when Anvur (the recently instituted national agency for the evaluation of research) adopted an undifferentiated bibliometric criterion for the assessment of research in the whole fields of economics, without considering the differences between subfields of research (in striking contrast to what for instance the physics panel had done, adopting a rigorous normalization between finely specified subfields). This gave a huge advantage to econometrics and a large one to applied macroeconomics compared to all other fields; the most disadvantaged subfield turned out to be the history of economic thought, with heterodox economics and general equilibrium theory following at a distance. This contradicts a basic principle of research assessment exercises that they should be neutral between research fields; but all protests (including those of SIE, the Italian Economists Association) were to no avail. In the Italian case, the usefulness or uselessness of HET was not at issue, at least not explicitly: other fields, such as general equilibrium theory or the study of the Italian fiscal system, were also damaged. An alliance between econometricians and mainstream macroeconomists discarded all attempts at argumentation over how research evaluation in the economics field should be conducted. If there is a teaching in this, it is that HET should look to other

subfields of economics for alliances in support of a level-playing field. All economists who do not feel or are not perceived to be mainstream (including those who do not fit our theoretical definition of heterodox) should come first in line.<sup>9</sup>

It is thus clear that research assessment exercises, rankings and other biased “merit-based” forms of research financing and personnel selection strongly impact both the kind of research that is undertaken and the quality of teaching. We thus believe that Fred Lee’s conclusion, highlighting the relevance of developing (as he has long tried to do) alternative ways to compare research “quality” across different scientific paradigms, can indeed be generalized to the need of a broad defense and counter-attack against the further institutionalization of the mainstream:

[i]n a world where heterodox economists and their journals and departments are always on the defensive, advocating an alternative measure is not just a radical and emotionally needed step forward, but also a proclamation that heterodox economists are not second-class or invisible economists but are equal to but different from neoclassical economists. To do nothing is not an option.” (Lee 2009, 226)

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## Notes

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<sup>1</sup> Of course, this is not to say that all these founding fathers adopted rigorous scientific standards in their HET investigations or were in some other sense ‘good’ historians of economics. For example, Sraffa was awarded the gold medal of the Swedish Academy of Science for his work on David Ricardo, while some historians blame Marx for his historical imprecisions (see, for example, Brewer 2002).

<sup>2</sup> Moreover, since the ascent of Becker’s approach to Chicago economics and the subsequent “freakonomics,” an increasing number of these models are not even concerned with ‘core’ economic issues.

<sup>3</sup> Apart from the inadequacy of bibliometric assessments in the case of individuals, there is the fact that the different size of specific research communities and different citation habits create a strongly uneven playing field (see the references in the main text and the conclusions below).

<sup>4</sup> It may also be the case that Lawson focuses more on mainstream microeconomics, while mainstream macroeconomics retained a stronger interest in real-world policymaking.

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<sup>5</sup> As Fred Lee commented in private conversation with us, one may reject Hodgson’s point replying that mainstream economics by construction cannot be applied to the real world. It is rather a set of implications or conclusions drawn from it that might be tested or applied.

<sup>6</sup> See for example D’Ippoliti (2011b, chapter 4).

<sup>7</sup> For a book-length illustration of this contrast in the history of economic thought, see Roncaglia (2005). The counter-position between the “circular flow” view and the “one-way avenue” view is suggested by Sraffa (1960, 93).

<sup>8</sup> By the way, we may surmise as a general rule that such attempts are bound to fail because of aggregation fallacies of various kinds, when conducted on the basis of supply-demand analysis.

<sup>9</sup> Besides academic survival, at risk is also the quality and mission of economics teaching (Roncaglia 2014).