

## ORTHODOXY, HETERODOXY AND MAINSTREAM THEORY OF ECONOMIC GROWTH

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*The main purpose of this paper is to gain an overview of developments in growth theory. Swinging between orthodox and heterodox theories it has been remarked that these theoretical itineraries, seemingly divergent, become somehow convergent. The general strategy of formulating an interdisciplinary analysis scheme more appropriate to real economic evolution represents the key of understanding this scientific trend. In this insight, the mainstream theory of economic growth is nothing more than a selective synthesis; choices between competing orthodox and heterodox theories having been done on the basis of inherent plausibility and consistency with realities.*

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### **1. Orthodoxy, heterodoxy and mainstream economics: conceptual clarifications**

It is helpful in making our argument to consider carefully the terms "mainstream" "orthodox" and "heterodox". Let us start with the term, "mainstream economics." In some sense, mainstream economics is the easiest of the terms to define, although it may be the hardest to identify in practice. It is in large part a sociologically defined category.

Mainstream consists of the ideas that are held by those individuals who are dominant in the leading academic institutions, organizations, and journals at any given time, especially the leading graduate research institutions. Mainstream economics consists of the ideas that the elite in the profession finds acceptable. It is not a term describing a historically determined school, but is instead a term describing the beliefs that are seen by the top schools and institutions in the profession as intellectually sound and worth working on. Because of this, mainstream economics usually represents a broader and more eclectic approach to economics than is characterized as the recent orthodoxy of the profession.

In our view, the term "orthodox" is primarily an intellectual category. It is a backward looking term that is best thought of as a static representation of a dynamic, constantly changing science, and thus is never appropriately descriptive of the field of economics in its present state. Orthodoxy generally refers to what historians of economic thought have classified as the most recently dominant "school of thought," which today is "neoclassical economics." Modern mainstream economics, however, is quite different from this concept of neoclassical orthodox economics. Having the two terms is important because it allows one to make intertemporal comparisons between the most recently dominant school of thought, in this case neoclassical economics, and today's evolving mainstream economics.

The difference between mainstream and orthodox becomes clearer when one recognizes two other aspects of the term “orthodox.” The first is that the name and specification of what is orthodox usually comes decades after that time when orthodoxy was supposed to exist; at the time it is a true orthodoxy, it generally has no name. Thus, orthodox specifications inevitably are backward looking, not current or forward-looking. Second, in economics at least, the name for the orthodox school usually comes from a dissenter, who opposed orthodox ideas, not from a supporter of the orthodox ideas. Defining orthodoxy, and giving a name to it, gives a critic an easy target; it implies a static unchanging dimension of thought. But this static view is not characteristic of the economics field. At any point in time, and especially by the time that the term becomes generally used, a large part of the mainstream profession disagrees with important dimensions of what is then thought of as orthodoxy.

Finally, let us consider the term “heterodox.” It is usually defined in reference to orthodox, meaning to be “against orthodox” and defines itself in terms of what it is not, rather than what it is. An economist who sees him or herself as heterodox does not subscribe to the current orthodox school of thought, as defined by the historian’s classifications. However, in our view, heterodoxy involves both sociological and intellectual aspects. Since many mainstream economists do not accept important aspects of the orthodoxy, the additional feature that determines a heterodox economist is social; heterodox economists refuse to work within the framework of mainstream economics whether because of the nature of the modeling process used, or because of the assumptions made. This often causes a failure of communication between heterodox and mainstream economists, even when they may share similar views about the limitations of the “orthodox” approach.

## **2. Economic growth theoretical itineraries**

Contemporary academic interest for economic growth and development mechanism is not a new one, but a sequel (or a resurgence) of an older preoccupation. In fact, the theme has exerted a big attraction between the economists, sociologists, politicians, ecologists, historians, geographers, etc. As result, it has come into view theoretical itineraries of which convergence and divergence has been remarked from the begging or during the time. Our paper swings between the economic growth orthodox and heterodox theories. Some references will be made about the orthodox vision on the economic growth process, natural and automatic, with the free game of market forces and the individual motivation as principal spring which gives the ability of self maintenance, but also our attention goes to heterodox theoretical systems born from the desire of underlining the standard thinking limits and to offer alternative reasoning.

### **2.1. The orthodox theories of economic growth since 1776**

The first imagine on the theme is the Smithian “machine” through which growth is obtained, simple and total, with objective and natural mechanisms of auto-maintenance, that works when the individual is let free to consume his energy and talent. The state, ‘the night watcher’, has only the catalyst role of these individualistically consumed energies by setting the rules of the game and through the manifest care for the compliance with them. The government intervention or the centralized planning is not needed, the economy can be coordinated by that “invisible hand” with the best results.

The Smithian message, by its simplicity, acquired grandeur and perennial character; so, many economists were seduced by its optimism, embracing the vision on the economic growth as a cumulative process in which the incomes per capita become progressively greater in time. For others the pessimism of his colleagues, Malthus and Ricardo, was contagious; the population principle according to which the surplus of the population is doomed to disappear and the law of decreasing returns in agriculture according to the expansion of the cultivated surfaces was converted in reference points for the ones who regard the natural course of things with

skepticism. The lack of consensus regarding the accomplishment and sustenance of economic growth during long periods did not attract the discrediting of the classical school, rather represented a premise of constitution of a much more comprising analytic scheme and thus more useful to ulterior theories.

The classical theory successfully passed the test of time, overcame the limit of experimental, perceptible knowledge, its vocation to interpret facts being in some respects unaltered in the present. Actually, the economy of the developed world “is flowing” according to this liberal scheme, unequalled as emulating force. What essentially brought the neoclassical to the construction of this scheme? Economy got “complicated” and they “invented” with the pretension of renewing and modernization of the classical message. Neoclassical school has proved that, inside free markets, voluntary changes, made under the prices signs between ‘selfish’ economic agents, lead to mutual incomes, best resources allocation, and, finally, to the maximization of general economic welfare. Also seductive by the optimism discharged, this reasoning is limited at least because the maximization of society benefits is analyzed on its whole, at a moment, or under conditions of different stationary states. The “cutting out” technique of some patches of reality (and concentration upon them) is not proper for understanding the course of things and changes which have been produced over the time.

The next generation of economists started their work from an easily noticeable and impossible to neglect assertion of reality that the world automatically configures itself into rich and poor, being able to be perceived as a mechanism where some prosper faster than others. This triggered the contemporary neo-neoclassical interest for the determination of the forces acting on this mechanism and making it work differently in time and space. The long-term investigations on the sources of economic growth and development materialized in theories representing rather variations on the same theme than fundamental disagreements or points of view of absolute novelty. *The trinomial of the fundamental production factors – labor, land, capital – remained actual under the aspect of the sources of the economic growth*, but the conceptual nuances given to each particularizes the content of the discourses and conclusions on this theme. On the plane of the work instruments, the production functions framed in mathematical models became the protagonists of the new theories; this type of analysis was useful for evidencing the rate with which an economy grows, but it is criticisable for the gross simplification of reality. The ones who shared the respective method reached similar conclusions under the aspect of the limited contribution of labor and capital to the economic growth and the existence of a “residual factor”. The equivalence of the total productivity residue with the technical progress is not exhaustive, it reflects “a measure of our ignorance” (Abramovitz, 1956); it regards besides the technical innovation, the institutional and organizational change, the changes in the social attitudes, the fluctuations of the demand and other omitted variables and even the errors of measure. However no matter how we regard it, as a total or partial explanation of the residual factor, *the technical progress plays a positive, unequalled role in the transformation of the productive processes and the improvement of the living standards*.

In this context, the Solowian lesson is referential. Solow asserts that a high rate of formation of capital is required, if the objective is the acceleration of the growth of the product and productivity, but drew the attention that the formation of capital is not the only source of the growth of productivity (Solow, 1962:76-86). The technological change gained a crucial role, even more important than the accumulation of capital. Solow considered it as “exogenous”; a phenomenon outside the economic model and system, determined by spheres in which the market does not have any control. The exogenism of Solow’s model was subject to severe critique but, a perfectionist spirit, Solow does not end his research in the field of economic growth during the years 1956-62; this preoccupation accompanies him, in fact, along his entire professional career, theoretizing and re-theoretizing the issue of economic growth from positions and with accents in consonance with the respective times.

At the end of the 20<sup>th</sup> century, a new theory asserted itself as intellectual fashion, firstly thanks to the formalization of the profound role played by knowledge in the process of economic growth and development; the configuration of the production functions changes to show that the increasing returns are only possible by increasing the stock of human capital and through specialization and investment in the capital “knowledge”. As a reply to the paradox that the economy is under the auspices of an exogenous factor – the technological change – which it cannot influence, the second generation of neo-neoclassical economists (Romer 1986, 1989, 1990, Lucas 1988) clearly defined its paradigmatic belief around which the matter of its theories gravitates: the economic growth is an endogenous result and not the result of some external forces.

The ‘new theory’ aims at a universal vocation manifesting interest for the realities of the economic growth and development everywhere. So, for the developing countries, it recommends an orientation towards the human capital to the detriment of the physical capital, and points out the benefits resulting from the international exchanges of ideas specific to open economies, integrated in the world economy. The convergence of the poor countries to the level of the rich ones takes place when the technology differences disappear, which is produced on the background of the growing transfer of new knowledge through the channels of globalization.

## **2.2. Heterodox ways of thinking about economic growth**

Gradually, growth researchers have become conscious that technological innovation and the process of its spreading are under the sign of institutions both in the developed countries (the laboratories of these innovations), as well as in the developing ones (under the aspect of rhythm of absorbing the advanced production techniques). By sequential changes of initial orthodox model, it has been obtained mathematical formalizations which reflect *the important role played in the economic dynamics by the social infrastructure- that combination between institutions and government policies, giving contour the economic environment in which individuals gain human capital and companies accumulate physical capital and yield output* (Hall, Jones, 1999).

With much more clarity and conviction, new-institutional theoreticians, those who have initiated this wave of changes in the economic growth and development approach, considered that however much meticulous, subtle and useful would be the estimations of economic growth sources realized by the neo-neoclassical economists don’t tell anything about the ultimate causes of economic growth. They don’t show us the motivations that lead to savings and investments or why innovations and capital accumulation have been bigger in a society or in a period of time. They don’t follow growth channels till their source (Olson, 1999:24). The axis idea for this new heterodox thought is that *endogenous institutions, partial or total product of the society on its whole, or of a segment of this, represent the causes for some societies being poorer than others*. Inherently, the analysis of economic performance has been translated from economic institutions ground to that of political institutions. Although, the economic growth efficiency of a set of economic institutions, comparative with the other one, is taken into account in the election process, the last arbiter is the political power. The group provided with ‘de facto’ political power will force ‘de jure’ political power representatives to foster the economic institutions suitable to its interests. Briefly, the hierarchy of institutions in a society is the following: *political institutions determine the configuration of economic institutions and, these, at their turn leave the mark upon the economic performances of a nation* (Acemoglu, Johnson, Robinson, 2004)

If we limit ourselves on theories mentioned till now, surely a rich literature about economic cycles would have remained outside our concern. The theorists of long cycles have been bent over the study of the past, and by extrapolation to shape the future; their intellectual exercises have as a target the events’ anticipation and the attempt to direct them. The attitude has not been one of finding the way that things are going, they tried, by a permanent past-present-future connection, to find solutions; for example, although one cycle phase characterized through

prosperity is possible to repeat, the specialists underline the need of conscious actions in order to create favorable conditions for its birth, or, on the contrary, to face the crisis and to counteract its effects. Dominant Schumpeterian thesis, according to which *'by innovations, it depends the recurrent periods of prosperity from cycling movement and the shape that the progress in capitalist society take, has gained followers till nowadays;* in the category of these innovations, the author has registered important variations and not the infinitesimal marginal ones, respective the historical and irreversible changes in the manner of doing things.

Later approaches of relation between technological (innovation) change and economic growth from techno-economic paradigm perspective represent a new theoretical chapter, substantial different from the neo-neoclassical one. Under the name of 'appreciative' theory, the evolutionist Schumpeterian descendants start with empirical remarks and express personal points of view linked to reality. Preferring the verbal way of economical theorization, appreciative-evolutionists demonstrate that also nowadays *the theory can formulate convincing arguments without resorting to mathematical tools.* Despite all these, they are conscious that the maintenance of such a method can be translated into a handicap, under the aspect of research rigor, in competition with neo-neoclassical theory, and for this reason starting with 90's, they build complex models, that get closed to the real world. By these efforts, the evolutionary theory wants to re-win the place taken in the economic science till the half 20th century, the neo-neoclassical theory affirmation moment.(Nelson, Winter, 2002:23-4). With an open attitude upon institutionalism (from which they claim a series of thesis) or more general, upon history and sociology, the evolutionists make their strategy of formulating an interdisciplinary analysis scheme more consistent with the realities than the orthodox one.

### **3. Mainstream theory of economic growth**

If the field of economics were static these two classifications (orthodox/heterodox) would be sufficient. The economics is dynamic and constantly changing. Since these classifications usually lag developments in the field by decades, the terms, "orthodox" and "heterodox," when used in a current setting, tend to be backward-looking, describing beliefs that, while they still may show up in texts, are not strong convictions of many in the profession and are being attacked by economists at the edge of the profession. The edge of economics is that part of mainstream economics that is critical of orthodoxy and that part of heterodox economics that is taken seriously by the elite of the economists.

Recognizing that there is an elite element in the mainstream that plays a crucial role in what new ideas will prove to be part of the acceptable edge of economics raises two problems—one of how open the elite will be, and another of how these ideas then disseminate throughout the rest of the mainstream and the profession more generally. Our view is that the current elite are relatively open minded to new ideas, but quite closed-minded when it comes to alternative methodologies. If it isn't modeled, it isn't economics, no matter how insightful. It is here that heterodox economics and the mainstream elite normally collide. Specifically, it is because of their method, not their ideas, that most heterodox find themselves defined outside the field by the elite.

On the theme of economic growth, neo-neoclassical economics is commonly dubbed "mainstream" because of its dominance in the economics departments of most major English-speaking universities and also for the inclination to model everything. But while neo-neoclassical economics was building up its hegemony, its path was never entirely free from dissonant voices. Some objected to what was perceived as an excessive use of mathematics in economic theory, and others to the general methodology of establishing a social science on an axiomatic basis. Yet others expressed concern that axiomatic economics had little to say about disparities in wealth between rich and poor nations, or about the growing income gap between management and labor. Making special reference to the scientific approach represented by the endogenous theory, doubled by empirical studies, we could say that it succeeded to penetrate the mainstream sphere of

economics and still belongs to the spirit of the era; a proof in this sense is the wide presence in different studies, reports, scientific works, of the assertion that the differences regarding the knowledge between the poor and rich countries are at least as important as the differences regarding the rates of saving or the international exchanges. This is just one of the multiple echoes the work of endogene economists produced on the ground of mainstream economics.

We are certainly not claiming that the mainstream is always pluralistic and open-minded, willing to accept orthodox/heterodox views with open arms. Far from it. However, the most insistent challenge to mainstream economics is probably that issued by an increasingly influential group of economists going under the general title new-institutional economists. Their charge is that the mainstream is still oblivious to the fact that economic activity is under the sign of society institutions.

#### **4. Conclusion**

The orthodox way, opened by classics and successfully followed by the neoclassical and neo-neoclassical schools, proved its perennial character, building up landmarks for ulterior developments. Although, clearly delimited, under the aspect of content and form, the recent orthodox discourse shows the wish to maintain its statute of dominant theory at any cost; and the respective cost, big or small, presupposes the exploitation of interdisciplinary aspects of the phenomenon of economic growth subject to formalization or, in other words, presupposes the validation and assimilation of a part of heterodox thought.

Also, on the side of heterodox theories we keep in mind the neo-institutionalism merit in order to demonstrate the fact that economics can realize remarkable jumps when he resorts to an intercourse dialogue characterized by sincerity and lack of inhibitions or restrictions. The new-institutional theoreticians have opened a way that economics has to go through as science!

We appreciate that recent changes produced inside the neo-neoclassical school mark the beginning of a much more comprehensive theorization upon the economic growth and development; we don't think that orthodox economists are still deaf at the external signs of their building, but, purely and simply, any kind of adaptation needs time.

Summing up, we notice the gradually disappearance of demarcations in what the theoreticians said and demonstrated. As the relation between the empirical and theoretical research became stronger the things can not advance only in one side; the contemporary economic reality is the one who establishes the direction and represents the inexhaustible inspiration source for everyone, orthodoxies and heterodoxies. On this particular ground, mainstream economics succeed in becoming not more then a synthesis loudly spoken by those who form nowadays the elite of economics. A synthesis! Synthesis of the synthesis!

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