

## UNORTHODOXY, HETERODOXY AND GLOBAL ECONOMICS

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**ABSTRACT:** The crisis of 2008-2009 highlighted some of the major structural weaknesses of global economics, implying its mainstream as taught in the curricula of the 'global economics programs' for Ph.D, a standardized approach following the American standards, fashions and methods.

Governments around the globe, starting with the United States and ending with China have been adopting a series of measures defying the framework and propositions of the neoliberal mainstream. While much of these seem to have been improvised and transitory, most of them remained in force even after the global crisis gave way to more normal conditions. Let us mention quantitative easing in monetary policy, lasting fiscal profligacy, tolerating historically unprecedented levels of public debt while private debt – of corporations, households and banks – together have outpaced the former.

Reflection in academic economics has been slow and fragmentary. Some of the better known dissenters, as Krugman, Stiglitz and Shiller have made important contributions in explaining the outcomes and offering superior options. Governments, often following political and ad-hoc considerations, willy-nilly adopted a part of the innovations. However the claims about a breakthrough of unorthodoxy seem premature. First, academe still resists much of the above changes. Second, the changes themselves do not overstep most of what had been suggested by the same authors prior to the crisis, in their broad critique of the formalized neoliberal mainstream.

While those preaching unorthodoxy usually associate themselves with the radical left and right brands of /actually old fashioned/ populist policies,

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innovations in the non-mainstream academe go in a different directions. Works by Piketty, Acemoglu and Robinson, Kolodko and the previously mentioned Nobel winners point to a different direction. Namely incorporating the political, appreciating the role of institutions and no longer relieving public policies of the responsibility to act – swiftly and professionally – in order to secure public purpose against various particular interests, especially those coming from private financial players and overgrown industrial corporations, as well as of social inequalities and slow growth.

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The global financial crisis and its management by largely ad-hoc measures taken both by governments of major nations and of international agencies, namely the European Union and the Washington Twins, have triggered both theoretical reflections and policy analyses in great quantities. In this paper we refrain from the latter and confine ourselves to the former, with an eye on the need to create a feedback from theories to policies, in order to contribute to better results of the former. In so doing we join a broad strand of international literature, including Kolodko/2008/2011/highlighting the need for economics to become a social science again. In short, we do not follow the current mainstream. That is the line of extreme technocratization, developed by Samuelson and Nordhaus/2009/ and their neo-classical syntheses. The latter rendered the discipline into a sheer analytical technique that may be used for any policies or purposes. Instead we argue for the need to re-establish economics as it used to be: a social science discipline, with openly admitted value judgements and normative consideration, preferably in an explicit fashion. As we argued earlier/Csaba, 2014/ the value-free technical approach to complex social phenomena is often inadequate for analytical purposes/do not allow for proper comprehension and description of many phenomena, such as financial crises/. Moreover it has led to misleading policy prescriptions.

In the latter – smaller – part the profession must bear its share of responsibility for paving the way to the crisis or at least failing to prevent it, inter alia by accepting the theorem of efficient markets, or spreading the impression of the omnipotence of perfectly calibrated models. It would be cheap to finger-point to the many authors who, based on DSGE models as well as VAR analyses

indicated, that if you get the econometrics right, the party – of booming financial markets – will know no end, and not only on paper, but also under real world conditions.

The 'benefit of crisis' in this case implied that new, unconventional theories and methods emerged, both in policy-making and in the academe. Policy-making has revolved around the ideas of quantitative easing/QE, both in monetary and fiscal affairs. Perhaps the most interesting novelty was the toleration of fiscal and monetary laxity as simultaneous policies which sustain not only for a few quarters, as suggested in the old times by Lord Keynes, to fight depression, but as lasting policy options who survive for a couple of years. While many analyses were produced both in descriptive and normative terms, theory has yet to cope in full with the innovations. This should not come as a surprise if we consider that the *General Theory* of Lord Keynes/1936/2007/, generalizing the lessons from fighting the Great depression was published more than three years after the crisis proper ended in Europe. Likewise in the USA experimentation along the lines of the New Deal went on for years without ever finding a proper theoretical foundation, comparable to that of Keynes for the UK.

Therefore we aim in this paper to make a modest contribution to the post-crisis 'real world economics'. What we observe is that innovations in the field of monetary policy seem to have reached their limits, and the post-crisis policies are likely to be fundamentally different from the pre-crisis period/Ihrig et al, 2015/. Similarly the study of deeper roots of the crisis warn us against putting all blame on financial excesses, and traditional variables of the real economy, such as uneven technological progress and consequences of monopolistic competition are back on the agenda/Snowden,N., 2015/. Last but not at all least, detailed studies of fiscal policies have shown that the conventional – and widely shared – criticism of alleged over-doses of austerity in terms of fiscal policies is in part factually unsubstantiated, in part theoretically unfounded/Tanzi, 2015/.

For these and other reasons there is a need to adopt an approach that we may term new pragmatism/Kolodko, 2014a/. This is distinct from previous approaches in a number of planes. First: it avoids the fallacies of old pragmatism, or the lack of theoretical anchoring. Second, it avoids the over-

theorized and non-contextual applications that are rooted in the current mainstream of the neoclassical synthesis. Third, it accepts as a fact of life that studying macroeconomic processes in general and of inter- or transnational processes in particular, is by its very nature a value-loaded exercise that can not and should not be confined to assessing technical alternatives and options, feasibility studies and quantitative outcomes. While all these are indispensable and useful, this is not the entire ball-game. It matters, that we should be able to answer the question mostly swept under the carpet in the economics of the post-WWII period: *cui bono?* Who profits from the given arrangements?<sup>2</sup>

### *Unorthodoxy in Theory and Policy*

The term 'unorthodox' has developed amongst a most widely – and liberally – used categories in economic parlance of the past few years, and not only in journalistic accounts. Many events and practices are being described by it, from Hungarian economic policy practices of the second and third Orbán Government, via Greek crisis management and the ongoing quantitative easing of the FED, which is coupled with sustainingly lax fiscal policies. Negative real rates of interest, for instance, would have been inconceivable for decades. Likewise, public debt/GDP levels surpassing the 90 per cent threshold in many advanced economies, including the USA<sup>3</sup>, the European Union<sup>4</sup> and Japan<sup>5</sup>, the triad shaping global economic processes, is a novelty. The United Kingdom, still a major player globally, but outside the Euro-zone stands at 87.5 per cent, way above the Maastricht standards.<sup>6</sup> And so is the fact that we see no indication of an 'exit strategy' that would seriously and strategically aim at remedying the mounting of – public and private – debts in a strategic fashion. While in 2009-2010, then ECB President Jean-Claude Trichet coined the term, it was commonly presumed that with the recession gone all major economies will enact fiscal retrenchment, one way or another. But, with a benefit of hindsight, we must observe: nothing of the sort happened in most large economies.

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<sup>2</sup> Let us note only the most recent example. By 'saving the Euro' through the unlimited provision of liquidity and especially through the targeted monetary operations the ECB did bail out the owners of bank shares, rather than 'men in the street', thus the distributional impact is controversial at best.

<sup>3</sup> The latest number for the USA is 103 pc according to CBO.

<sup>4</sup> 93.5 pc according to Eurostat latest data.

<sup>5</sup> For Japan the IMF estimate is 245.8pc according to the article 4 consultation report published on their website.

<sup>6</sup> These and other data can be conveniently retrieved and compared in the EU Commission's debt.clock website.

On the one hand, observers of the policy arena tend to formulate the claim: „from now on, nothing of the received wisdom holds”. Perhaps understandably, guardians of academic chastity, in the theoretical departments and doctoral schools of economics, have reacted with a degree of unprecedented rigidity, rejecting any room for revisionism as unscientific and woodoo economics. The output of leading journals – the top twenty of IDEAS/REPEC – continue to be filled with speculative modelling, following much the same lines and standards as in the pre-crisis period. The drift between practitioners and theorists, which has never been small, has developed into a Chinese Wall.

As a consequence we find at least two trends and discourses that may be affiliated with the term 'unorthodox'. In most countries we do find a series of 'pop-economics', to use the term of Krugman/1996/, who offer simple explanations and simplistic solutions to complex real-world issues. They tend to shrug off the usual – well established – claims about the economy being a complex system, riddled with fundamental uncertainties. Also they tend to blame globalization, the growing interconnectedness of economies and societies in all walks of life, magnified by the internet revolution, on most such issues which in more traditional parlance capitalism was to blame, such as poverty, inequality, environmental degradation, mass migration and failing/failed states.

Pop economists usually do not bother to elaborate their claims in formal or more traditional verbal models, let alone substantiating those with statistical evidence, case studies or other – empirical or logical – means which are basic features of any academic exercise worthy of its name. Simplicity and one-dimensionality is also a key to success, measured in terms of copies sold or tv interviews granted, or the number of downloads from electronic databases. The more communication becomes equal to infotainment, the larger the demand for this type of output. While not very original or deep, such ideas do shape perceptions, popular expectations and thus *the mindset of decision-makers*. Mainstreaming of previously extreme ideas in all walks of life including economics is going on in large scale. Examples abound, from the claims that easy money will solve everything to the point of blaming regulations and the state for each and every human/economic shortcoming.

But there are more serious forms of unorthodoxy, when *policy-makers themselves call their actions this way*, in order to gain visibility and respectability, as opposed to traditional, worn-down and 'provenly inefficient' methods. It all started perhaps with president Reagan's 'supply-side revolution', that combined tax cuts with expenditure increases/for Star Wars and others/. We just skip the contemporary justifications for parallelly conducting lax fiscal and monetary policies, as customary in much of the western literature. Instead let us add, as a *couleur locale*: the Hungarian experience.

In Hungary economic policies never followed a secret – or not so secret – master plan over the past 25 years. Still, representatives of the post-2010 period tend to characterize their actions as 'unorthodox' in order to contrast those practices to the 'neoliberalism' of the preceding two decades, which they identify with a policy of constant and self-reinforcing fiscal and monetary restrictions. Also if we were to compare the practices of the 2010-15 period, based on sectoral special taxes, growing re-distribution and enhanced state management and ownership of competitive industries/tradables, as well as state administering of a growing amount of prices, these features do contrast with the usual textbook view of solid economic policies. Lessons from this period have been summarized in an extensive volume recently published by the Governor of the central bank. In this self-evaluation György Matolcsy/2015, pp319-435/ finds the turnaround against the philosophy and practices of the pre-2010 period to be the basic feature of this time. As he highlights in his summary/op.cit.,pp577-589/ decision-making has no longer been constrained by the dogmas of the preceding period, nor by the illusions and values of those, and instead it is structural reforms which are taking the central stage. He identifies those with the largely ad-hoc crisis managing measures. Critics of those policies qualify those measures as the exact opposite to what structural reforms are understood in the standard international literature/Kornai, 2015/.

Let us note: in the global economic literature a different interpretation of the term seems to have prevailed. In a much-publicized bestseller Nobel winner Paul Krugman/2012/ rejects one of the fundamental features of Hungarian policies, i.e the focus on stabilizing and even diminishing the public debt/GDP

ratio<sup>7</sup> as a focus of macroeconomic considerations, as well as the supply side approach characterized by the priority of flat tax – a major ideological component of the second and third Orbán governments. For Krugman the key is exactly the opposite: sustaining fiscal and monetary laxity, attachment to quantitative easing for long periods/not only during deep recessions, as with Keynes/ and rejection of the dogma of balanced budgets. True, the latter was mostly just a textbook wisdom, however bad textbooks may translate into bad policies.

An interesting mixture is the position of another Nobel winner Joseph E. Stiglitz/2015/. He takes a politically less and professionally more radical position than his fellow Nobel winner. He develops a fundamentally renewed version of neo-Keynesianism. Unlike the traditional line, he focuses on the need to detect and remedy *structural weaknesses* as opposed to the traditional priority of reviving effective demand, which is of course a cyclical prescription only. He also highlights the need for diminishing inequalities, whose growth has been rampant, especially in the United States as his paper amply documents. Finally he also advocates activist governmental policies, but one not based on ideological prejudice, but on common sense. As it is known, the room for governmental intervention depends crucially on *the size and working of the fiscal multiplier*. If an economy is sensitive to financial signals – both fiscal and ones coming from the capital markets – there is ample room for reflation the economy. But in the opposite case austerity may actually worsen the retrenchment, triggering disproportionate falls in output and employment.

As Stiglitz elaborates above, the lasting lagging of poor strata does not follow the orthodox microeconomic model, *it does not create incentives for additional work and more performance*. Under real world conditions impoverishment breeds exclusion, illnesses and alienation, all features known from the sociological surveys of pockets of deep poverty. The latter tend to reproduce itself – as in the ghettos of depressed urban areas – rather than create multiple incentives for moral and economic improvement, as the neoclassical textbook view would have it. From a macro perspective this is a recipe for stagnant

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<sup>7</sup> Hungary's public debt/GDP ratio decreased from 81 pc to 76 pc in 2010-2015, while that of the Euro-zone increased from 83.5 to 92.1 to 2014 and around 93.5 pc according to Eurostat/last retrieved on:27 Nov., 2015/.

consumption and low employment, signs of the 'bad equilibrium' concept in conventional economic wisdom.

Without further ado we may observe that in economics, like in other disciplines, crises also pose opportunities for testing theories and developing new ones. One of the recurring themes in our case is why even the best theories and top persons coming from the best schools proved unable to find sustainable solutions to the challenges.

It is certainly legitimate to observe at this point that *no theory may or do aspire to explain each and every case*. Even in the natural sciences, as in physics or chemistry, finding a counter-example or an outlayer is no reason to discard entire complex and sophisticated theoretical architectures, especially if we do find an explanation for the deviance within the given framework. Thus we condone the self-reflective and ironic title of a volume by a previous Governor of the National Bank of Hungary, noting that *unorthodoxy has been with us for decades*.<sup>8</sup> Decision-making follows a series of considerations, he claims, and theoretical coherence is just one of the many factors which play a role. Participant observers would easily agree: other motives, as fitness to present the idea in the electronic media, considerations of electoral success, perceptions/of individuals and issues/, prejudices, or the sheer bad quality of preliminary data on which most actual decisions do rest, all translate in interactions that may hardly follow the logic of rational expectations, even if it was the priority. Alas, the latter is at the very epistemological root of neoclassical synthesis, or the current theoretical mainstream taught at doctoral schools across the globe.

In an ideal case scenario this state of affairs is not de-railing either theorists or policy-makers. As a matter of fact, economics has always been renewed in trying and often succeeding in providing answers to new challenges. Thus the current crisis may also allow for a new and fruitful set of innovations. In an ideal world scenario theory and practice should go hand in hand - this is what new pragmatism is all about.

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<sup>8</sup> BOD ,P.Á./2014/: *Nem szokványos gazdaságpolitikák/Non-conventional economic policies/*. Budapest. Akadémiai Kiadó. – Note, that in the original manuscript the title continued: 'since decades'. The latter reflects the insight of a seasoned observer stressing the complexity of, manifold reasons for, the rule of ad-hoc decisions at the top level.



### ***Sustaining Orthodoxy in the Academe***

**In economics – just like in arts – each era is described by its mainstream. What is mainstream and what is heterodox is often a matter of ex post judgements, contemporaries often do not know or do not agree. What becomes mainstream is described by such factors as demand, fashions, style, taste, emergence of new instruments/odf analysis/, new insights, news techniques, and not least, these follows balance of power changes, both in arts, politics and the academe. In our case standardized, formalized and Americanized set of norms – known also as the global economics program for PhD – is the standard.**

**What it means is easy to document. In research journal are meticulously ranked by publishers and other peers – all relying on a service consultancy, Thomson Reuters and the database produced by them.<sup>9</sup> From among the journals which make into the sanctuary of the 'economics' entry, i.e those who qualify at all to be considered within the *limes*<sup>10</sup>, 19 out of 20 of the top rankings of IDEAS/REPEC are edited and mostly published in the United States of America. Let us note: no similar concentration of 'quality' is observable in any other discipline, be that nuclear physics, medicine or chemistry, where US schools obviously take a leading position, but not a monopoly.**

**This is itself an anomaly, given the lack of replica in other disciplines. The situation is further exacerbated by the emergence of the 'global economics program'. The latter means that not only BA and MA, but PhD level training follows American standards, structures and evaluation patterns, irrespective of the problems of local societies. The latter may well range from reform of the**

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<sup>9</sup> It is telling to note that some of the more obvious shortcomings of such arrangements are already being remedied. For instance the scope of journals that are indexed is increasing, although not very impressively. Similarly leading publishing houses have managed to 'penetrate the market', by allowing for the incorporating academic citations in books to be processed. The Spring 2015 catalog of Edward Elgar for instance boasts that their items do figure in the database, and indeed 20 million entries from books already show up. Let us note: the bad news is that the coverage in space and time is rather fragmentary, thus the synthetic indicators –as of total citations, or of cumulative impact factors – certainly provide a distorted overview of the 'state of art', which it is supposed to convey to the ignorant.

<sup>10</sup> We have come to so much over-appreciation of the rankings that the publishers themselves have difficulty in coping with inter-disciplinary journals/a growing crowd/. Oftentimes they publish different rankings for the same journal, already at the front page of it. For instance the long-time leader in European studies, *The Journal of Common Market Studies*, is ranked as no10 in International Relations, as no 19 in Political Science and only as no 49 in Economics. Let us note: European studies as such does not figure among the entries, and individual articles are often hard to catalogue in one or the other field- which is seen/by readers, not by publishers/ as a plus.

**Common Agricultural Policy to fighting hunger, while in the US obesity or misuses of credit cards figure among the preferred subjects of top ten journals.**

**Poorer countries have adopted two options. They either copy and emulate American practices, including the use of textbooks and evaluation standards, or simply outsource doctoral training to the market leader, the United States.<sup>11</sup> As a result, teaching economics has undergone a standardization unknown across its 300 years of history, becoming comparable to the trade of dentists or plumbers for that matter.**

**This situation has been exacerbated by the indiscriminate expansion of schools in economic and business higher education, triggered by the quantitative expansion of enrollment numbers irrespective of size and quality of faculty, weakening accreditation standards and diminishing public funding for higher education in central and eastern Europe.<sup>12</sup> The outcome is a paradoxical situation: the increase in the number of economics and business degrees did not translate into a higher general understanding of economic issues. *On the contrary: it has contributed to the decline in the quality of public understanding of complex macro-economic issues and the spread of populism in east and west alike.* In an extreme- but not imagined – case someone earning a degree with three classes in macro or one class in finance can qualify as a CEO, a member of the cabinet with economic/business qualifications, an ambassador, or even a member of the Academy of Sciences. In a world of 40 second tv-clips such level of economic education allows for the spread of woodoo economics, „alternative” views which are a long way from academic heterodoxy, as we shall show below. But whatever happens in the academe it is not decisive for public choices, while perceptions and discourses often are, even if unfounded.**

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<sup>11</sup> A critical evaluation of this process, including the potential threats to the 'local' societies/outside the US/ has been produced a decade ago by the collective stock-taking in the book by Bourgignon-Elkana-Pleskovic, eds/2007/. The process has not been reversed, rather accelerated to such extremes that even in a Communist country, like Vietnam, exclusively American texts are used for educational purposes, from economics to industrial organization, marketing and finance. One would think: local knowledge should matter in the context, especially in the more applied fields.

<sup>12</sup> It is certainly legitimate to observe: even if real value of expenditures on higher education were kept/which has not been the case/ the splintering of institutions, with heavy overhead and over-employment, especially in the administration/non-teaching units would have brought about a bankrupt situation anyway. But allowing for the massive inflow of private money on the American muster could have alleviated the situation. The latter was, however, resisted by the regulators, out of fear from 'commercialization' and 'selling out of souls', much along the French, German and Italian lines.

The above state of affairs leads to yet another contradiction. On the one hand, *over-simplified and abstract economics has led to an alienation of decision-makers, of business and policy-making levels alike.* In an unpublished study of MA theses defended at the leading Corvinus University of Budapest we have found, that in the past 5-6 years only 9 per cent of those included at least one reference to academic sources, including textbooks and required readings. This means, that the function of Econ in education today is quite akin to what Political Economy of Capitalism and Socialism used to be under the *ancien régime*: teaching the proper creed, which anybody with a sound mind should be over ASAP and forget it ASAP. It is hardly by chance that those openly protesting against this state include such diverse groups as employers' association, students of top US/UK universities and top persons from the ECB.

As usual, there is a good news and bad news. The bad news is that bleeding out of higher education goes on in much of Europe/except the Scandinavian countries/. Furthermore employers - in Hungary definitely, but increasingly in much of the rest of Europe - no longer differentiate between BA and MA level degrees, and often economics, business, finance or tourism all qualify for them as 'a degree with economic competences'. In this process supply-side and demand-side conditions compress anything that deserves the name of quality education in economics.

The good news, by contrast, is that in academic economics a series of innovative approaches emerged, which aim and also deliver *a much deeper understanding, analysis and thus improvement in real world affairs.* As these novelties – following the classics of Thomas Kuhn/1970/1996/ - tend to be born outside the established high-brow framework, these non-mainstream contributions are called – in line with Anglo-American practices – as *heterodox economics.*

### *The Revival and Spread of Heterodoxy on the Fringes*

Let us start with re-iterating the works of persons who have provided deeper insights in real world issues, including the global financial crisis. The book of Nobel winner Robert Shiller/2005/ of Yale, published prior to the outbreak of the panic, may serve as a lasting example of how *behavioral finance* may, and indeed does, contribute to the better understanding of real processes observed

on capital markets today. Perhaps the most important defining feature of this approach is that, unlike neoclassicals, it does not presume absolute rationality and perfect information understood and processed by market agents. Instead it follows the century-old tradition of postulating the rule of socio-psychological factors, as herd behavior, the rule of perceptions over fundamentals, informational uncertainties and the rule of fashions over rational calculations. These all lead to regular and inevitable over-and undershootings against any – conceived or real – equilibrium point. This approach is exactly the opposite to the currently ruling theory of efficient markets, elaborated by Eugene Fama of Chicago, who was awarded with the Nobel Prize in the same year as Shiller. But also such holistic approach would leave little room for practical application of the more formalized models which still rule in mainstream finance<sup>13</sup>, as the Black-Scholes or the Miller-Modigliani models operating with extensive formal mathematical apparatus.

Shiller continued his line in explaining the financial crisis, in a real best-seller, jointly published with an other Nobel winner, George Akerlof/2009/. It is perhaps no coincidence that academic orthodoxy tended to marginalize finance long before the crisis and it has not changed its mind ever since/if the top twenty journals indicate academic excellence/.

It is telling, that works of these Nobel winners – or the even more radically Elenor Oström/2005/ - do not figure in the curricula of the global economics program, but – less trivially – also not in the top executive/business management/industrial organization/EMBA programs either. Quality control is being secured by the continued reliance of Hal Varian's long dated though revised - Microeconomics/1989/2014/ - although the author has long left academe for google, inc. In 2002. In many places- including Harvard – Gregory Mankiw's old text/1992/2011/ ensures solidity. Since the author did contribute –as chair of economic advisors – to the ruinous economic policy of George W.Bush, the choice is less than self-explicatory. Perhaps convenience rather than merit shapes curricula. Furthermore, since European macroeconomic texts do exist/Burda-Wyplosz, 2013/ - actually in its 6th edition – one can not use of

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<sup>13</sup> This is not only and not primarily about the academe. Such powerful screening procedures as the three year global Chartered Financial Analyst degree is also based on the use of formal models rather than any component of the heterodoxy we praise in the main body of the text.

'lack of anything more relevant for EU countries' argument either. Furthermore one wonders, if anybody, unable to produce a series of lecture notes of his subject, even for BA or MA level, does deserve the rank of a full tenured professor of the university/*Ordinarius*. In writing local textbooks, while following the general insights in global economics, the *couleur locale* could be added, and applications in real world/national contexts ensured without much ado.

Much of the *truly path-breaking novelties in economics could be found in academic volumes*. This should not have come as a surprise for persons from humanities and the more traditional social sciences. However, economics tended to emulate the natural sciences in the past half a century or so. Not only in accepting formal mathematical presentation as the sole or major criterion of academic soundness. But also in terms of over-estimating the role and impact of journal articles, and thus the ritual over-appreciation of journal rankings cited above. Let us note: in some cases and countries, such as in the United Kingdom and the Netherlands, but increasingly also in Germany and 'naturally' in the USA, *it is only articles published in academic top journals which count for promotion and external funding*. Writing books, if appreciated at all, count as a kind of outdated hobby, which is though not positively prohibited, but does not really matter for academic appreciation. The role model was of course Samuelson, but current formative personalities, from Robert Lucas to Eugene Fama tend to express their ideas exclusively in articles, or collections of those/which look like books, but lacking an over-arching structure unifying them are by no means monographs in a bibliographical sense/. As top journals and authors tend to form a closed shop, they set standards for the current mainstream, thus it is legitimate for dissenters to show up elsewhere.

Academic publishers are fortunately keeping a more open approach than journals do. They continue to be oriented to a diverse public, a market which does look for other than the high-brow top journals offer, something of immediate and lasting social value, over and above the above mentioned pop-economics. In the following I shall cherry-pick just a few of the truly momentous contributions from among the heterodox authors, i.e. works which offer a fundamentally different interpretation of economic affairs from the textbook/mainstream description. One of the most appreciated and controversial items of the recent years has been that of Acemoglu and

Robinson/2012/. In their presentation we may observe *a return to classical economics, that includes the study of historical and institutional factors*, not only as minor items which may well modify the quantitative outcomes.

Allowing for the historic narrative to rule is a heresy. All the more so if one of the authors- Acemoglu – is also editor of the *Journal of Econometrics*, which is one of the holy places of the current mainstream. To make things worst, the high priest – editor in chief – joins forces with a political scientist rather than a mathematician or a physicist. The long view is also the opposite to the usual modelling approach, where changes tend to occur instantaneously or endlessly, but not in delineated time horizons.

Acemoglu and Robinson revive a genre which seems to have gone under in economic analyses: *the grand narratives in history*, which is not the same as positivist history writing expects, that is the meticulous collection of facts and details without a normative or synthetizing theoretical frame. For economist it is a – long forgotten – important traditional analytical instrument *to conduct case studies*. In the latter – still vividly used in business studies – description has a value of its own. However the real thing comes after, when cases are categorized, similarities and differences explained and generalizable conclusions are drawn. This return of the tradition is in stark contrast to the self-interpretation of the guild, when „mathiness” is the sex-appeal/Romer,P., 2015/, when the quest is to find rules and laws that apply everywhere anytime, provided the axioms hold and the mathematics is fine. Optimality is not a concern in both the historic and descriptive approaches, and empirics can not be confined to testing the coherence of the proposed argument, irrespective of what we observe on the ground. We are pretty sure that no journal of the top twenty would have published one or more chapter/s of this volume, while the echo among decision-makers, academics and policy-makers has been so big that it speaks for itself.

In established mainstream approaches the dominant analytical tool is *comparative statics*. This implies the narrowing down of complex issues, in order to be able to come up with quantifiable results. How big or how small is the impact of A on B? What number can we put on the influence C had over the outcome D? A large part of the empirical literature is devoted to such exercises,

which is indeed legitimate. The first question any businessman, any policy-maker or any sensible person to decide over economic matters would be in establishing if we talk about a mammoth or a mosquito. And although Milton Friedman has famously coined the dictum: if the prediction is OK, do not ask about the premises or the axioms, *most economists of the past two decades have shyed away from making forecasts, especially for the long run*. A well known example for what a chaotic complex system takes is the atmosphere, especially its upper levels. Meteorologists are thus subject of frequent teasing, despite the fact that they tend to come from among the best mathematicians.<sup>14</sup> The more a 'serious academic economist' identifies himself with the Friedmanian paradigm, the less he is willing to venture into any kind of forecast.

For one, four times minister of finance and deputy PM Grzegorz Kolodko joined the long row of those who turned resolutely against this defeatist stance. An author of over 30 academic volumes and over 300 internationally widely cited articles Kolodko/2008/2011/ brought out a book during the Great Recession<sup>15</sup> in which economic matters are re-embedded in politics, and discussed in a global, long term context. Observing the ongoing new dimensions of the crisis, which acquired ecological, social, demographic, technological and other layers, has further widened his analyses, extending those to technological and natural processes. In the subsequent twin volumes/Kolodko, 2014b/ he asks a series of pertinent questions over how to avoid catastrophes and arrive at a better world, or in his terminology, what is the political economy of the future?

The book is recommended inter alia by such authorities as Henry Kissinger, Francis Fukuyama or Nouriel Roubini. The volumes are worlds apart from the volumes which are building on micro-foundations and rely on heavy mathematics, often dubbed high quality academic output, taught in the global PhD programs in economics. Instead the author addresses such issues, which fall outside the scope of attention of the former line, *but have been daunting decision-makers both at the corporate and policy-making levels*. Let us re-iterate the most important ones!

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<sup>14</sup> Kenneth Arrow, while serving in the US Army during World War II, also served in this capacity.

<sup>15</sup> The Polish original appeared back in 2008.

1. How can it be, that economists, relying on an ever more sophisticated armory of analytical tools tend to be wrong more often than not, both in analytical and predictive terms?
2. What has brought about the new *Völkerwanderung*? Why has the traditional, slow and organic roads and ways of migration given way to massive, uncontrolled and seemingly uncontrollable processes? And will this know any end, if yes when and how?<sup>16</sup>
3. Does the traditional claim about the finiteness of natural resources' being the fundamental constraint of long term development still hold? Or is it the knowledge-based society, the IT revolution which changes not just the parameters but the very functioning – *modus operandi* – of economic systems? Is it true that „knowledge takes all“?
4. Are there any ecological and social limits to growth, especially in less developed countries and accounting for advances in technology use? If yes, what are these and how does it translate in growth numbers?
5. What are the consequences of growing inequalities of wealth and income, both within and across countries? If no, can we sustain the traditional economic focus on macroeconomic aggregates, or is this positively misleading?
6. What is the final balance of globalization processes? Is it the freedoms and competition enhancing consumer welfare to previously unknown size, dynamics and scope which dominates? Or are the threats of eroding national regulatory regimes by stronger players and brute business interest stronger?

It goes without saying that such broad questions may only receive a partial and preliminary answer, if only because of their breadth and limitations of space. Kolodko *takes a middle road among the polar positions* ruling the international exchanges. On the one hand he comes out time and again with criticism of the implicit and explicit free marketeer ideas as harmful and simplistic. On the other hand his experiences in the command economy – and not less as a practitioner in the state administration – cautions him from vesting too much faith in any 'benevolent dictator', who could save society from the perils of trials and errors,

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<sup>16</sup> Le tus note: these issues were raised in the text cited above years before the current outburst of the migration crisis in and for Europe.



inherent in any democratic deliberation and control. Advocating an active role of government he avoids the trap of customary activism. He assigns the *following tasks to good governance*: creating an environment which favors entrepreneurship, bring about a transparent, accountable and calculable set of rules, ensuring solid and sustainable public finances, and protecting the environment in a fashion which is ecologically sustainable and not detrimental to business initiative.

These insights have weighty consequences for theory and policy alike. This implies that growth does have its limitations, even at lower levels of development, if constraints of the ecological system are taken seriously. Thus long-term growth rates, even in the current champions, as China and India, are bound to decelerate. But this slowdown is not attributable to factors dominating neoclassical growth theory, such as diminishing returns and approximating the technological frontier. Rather it is ecological concerns and the need to keep inequalities at manageable size which translate to much lower growth than we are currently are accustomed to. True, those lower rates look sustainable in the long run.

Finally mention must be made of an economic bestseller, which was sold out in several million copies despite its bulky size and arduous language. The book by Thomas Piketty/2014/ is comparable both in size and ambition to the principal work of Karl Marx, *Das Kapital*, on which the volume is modelled.<sup>17</sup>

The oeuvre of Piketty has a lot of common with that of Daron Acemoglu. None of them are born US citizens, they both earned their basic degrees outside the US. Still, both of them made career in the most competitive market in academic economics. Piketty evolved in an accomplished researcher gradually in the *alma mater* of the late Paul Samuelson, MIT of Boston. While based at the Paris School of Economics, he also teaches part time at the London School of Economics. These commitments and positions are clearly indicative of his deep

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<sup>17</sup> The fundamental difference is technical: Marx is published in three volumes, Piketty – relying on technological progress, allowing for online presentation of much of the source material, in one. But in characters the two broadly overlap.

and organic integration in the UK/US academe- a feature which unites him with the 2013 Economics Nobel winner, Jean Tirole of Toulouse.<sup>18</sup>

Before bringing out his *opus magnum* Piketty spent over two decades studying inequalities on the global scale. He started with re-calibrating the classical time series of Simon Kuznets/1955/, whereby the founder of these studies were indicating the tendency towards falling inequalities in the long run. Piketty extended these series both back in history and for the six decades that elapsed since.

In so doing the author introduced something revolutionary for the mainstream. Rather than speculating on the proper calibration and maths needed for a model, spelled out by Paul Romer/2015/ as decisive for academic soundness, he processes historical and current comparative statistics. Where those show lacunae, he takes the pains of visiting archives to excavate missing source material and re-constructing time relevant statistics from the fragmentary but available written sources for several countries. Thus he produces prime sources, as is usually done in history and statistics. Following this, he publishes a series of articles in the top ten journals, including the *Journal of Economic Literature* as well as the *Quarterly Journal of Economics* of Harvard. But he does not stop at this point, as most of his peers would and actually had. He revives the conservative academic tradition of synthesizing his findings in a bulky monograph, thereby *lending an entirely new dimension for his findings*.

Conclusions and insights of Piketty's work are unlikely to make into any curriculum, even at the PhD level, owing to the size and complexity of the argument/not because of the mathematics, which is kept to the minimum/. Among the many new insights we should underscore, that *the development of the United States is shown to be exceptional* rather than the standard, as US textbooks and many academics would have it. In case of the US the role of inherited wealth is much smaller, thus American capitalism is one of entrepreneurs rather than of rent-seekers. On the other hand Piketty shows, that in 1980-2013 the lot of the „bottom half“ has not improved. All the increment accrued to those better off, especially to the top 1 per cent, way

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<sup>18</sup> His alma mater is 'surprisingly' also MIT, where Tirole also continues to teach part time. If anybody doubted the closed shop nature of the mainstream, he should think twice.

above the levels justified by relative productivity or other contribution to wealth creation. In yet another new insight *he revives interest of economics in distributional issues*, exorcised by the technocratic neoclassicals. He proves in meticulous detail: without state intervention inequalities inevitably grow, and have already reached the 1913 levels. Therefore one may indeed worry for the future of democratic capitalism based on middle classes and welfarism. Thereby – like Stiglitz – he transcends the purely methodological focus of the current mainstream and brings us back the importance of values and choices for policy-formation – like Stiglitz does.

Furthermore, mention should be made of yet another- but very differently conceived and concluding - *opus magnum*, which *may lead to the rethinking of modern economics as we knew it*. This is the synthesis of the lifetime output of Deirdre McCloskey/2013-2016/. Among the great many innovations she stands out for *her detailed attention to providing those formal proofs which much of the profession takes for a pre-condition of economic soundness*. While the author winds up the sweeping criticism on the one-sidedness and ensuing misleading outcomes of the widely used formal analytical techniques, including the cult of statistical significance, she also takes the pains for presenting a formal explanation of the counter-propositions she makes. Given that the third volume is not yet available at the time of writing, we may highlight the most revolutionary from among her insights, based on the continuous output available from her.

Her claim is no less, than questioning the entire logic behind neoclassicals. If the latter follow the Walrasian project of *mécanique sociale*, thus take factors and their combinations as independent variables, and socio-economic outcomes as dependent ones, *she reverses causation*. In her view it is basically ideas and values which explain why innovations translate into technological progress and trickle down of created wealth in some societies, but not in others under similar or comparable conditions. In her reading it is wrong to take factors and their quantities as given. In reality it depends on values, perceptions and incentives if those actually do get combined in a fashion which leads to the explosion of wealth. Therefore all major changes ever since the Industrial Revolution need to be interpreted as changes in values and the ensuing changes in the rules of the game, which in turn trigger efficient combination of factors than before. In her

reading innovation is an outcome of societal change, not the triggerer of the latter as in the neoclassicals.

Similar approaches emerge in the latest book of János Kornai/2013/ devoted to the role of innovation in bringing about economic change. In his reading the complex and intertwined web of incentives, disincentives and informational flows together form the backbone of the capitalist system. Despite the latter's obvious shortcomings in terms of equity and human concerns, this set of rules does constitute a system, which lay at the heart of innovation in a modern society. Expanding this insight he is critical of the reading of contemporary criticism by Piketty/Kornai, 2016/ as one being blind exactly to these features of capitalism. Let us note: *being inside the mainstream, as Piketty seems to be, at least with one leg, implies inevitably his disregard for the incentive issue, so focal in Austrian and traditional institutionalist approaches.* At the end of the day this is also the crux of the criticism of McCloskey/2014/ of the Piketty view of contemporary capitalism. She is underscoring: if we disconnect - or simply by adhering to mainstream traditions abstract away from - *the formative components of change, which is innovation and wealth creation rather than distribution of rents*, we may and do end up even in errors of measurement, which should be the pride of the neoclassical economist. If we disregard the unprecedented expansion of wealth and overcoming much of the problems of rampant, absolute poverty, which used to reign until the post-WWII period, we simply adopt a distorted angle, often missing the point. It is simply wrong to abstract away from the fact that the pie for every worker in a rich country has increased 30 times since 1800, mostly owing to human capital betterment, while return on physical capital was kept down to 5 to 10 per cent<sup>19</sup> by fierce competition and new entries/op.cit., p.85/.

### *Summary and Concluding Remarks*

In this paper we attempted to present an overview – even if fragmentary – on what has become available on the aftermath of the Great Recession in terms of broad economic theories. We have noted the dichotomy between the ever more closed shop of pure economics, applying the neoclassical axioms and methods with even more rigor than in the pre-crisis period. We contrasted this

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<sup>19</sup> Which turns into a 10 to 20 fold increase, depending on the number of years with smaller/bigger numbers.

with unorthodox solutions adopted by policy-makers and heterodox theories, developed by school molding personalities of the profession in opposing the self-referentiality reflected in the top twenty journals and top US universities.

Comparing what the 'global economics program' of standardized and Americanized economics PhDs offer we have demonstrated a contrarian trend. Even without addressing the traditional dissenters – as ones rallying around the *Cambridge Journal of Economics* or the equally influential *Journal of Institutional Economics* - the multi-disciplinary approaches and business economics, developmental and political economics<sup>20</sup>, we could show a fair degree of renewal in the professional output, if not yet in the curricula.

This state of affairs may continue for a long time, *exacerbating the drift between contemporary levels of academic knowledge and its imprint on minds of the young generations, let alone that of policy-makers and business leaders.* Those deciding over public – and private! – finances, public goods, regulation and the like, on welfare and competition, are institutionally constrained to build their insights on up-to-date insights from the academe. We can only hope for slow and incremental improvement under the pressure of crisis situations around the globe which emanate, at least in part, from inadequate stand of knowledge, and only in part from interest-based signalling and screening.

Our fragmentary overview is both *sobering and optimistic*. Sobering insofar as we have documented a very limited ability – and willingness – to learn in a field whose paradigm is rational expectations, even under conditions of recurring crises in the real world, if we take PhD curricula as a starting point. On the other hand we have shown the emergence and considerable advances of various heterodox schools of thought, which have already exerted considerable academic and policy impact, and obviously have contributed to a better understanding of real world issues. Let us hope that the Kuhnian change of paradigm is already in the making – and it is likely to make headways also in the curricula. Perhaps unsurprisingly, 'practical men' are likely to discover those earlier, as the attempts of unorthodox arrangements are likely to be out of stream earlier than many predict. Therefore new pragmatism – that is the new

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<sup>20</sup> The remarkable output of these heterodox schools are easy to follow in various Handbooks published by such houses as Oxford, Routledge and Elsevier.

intertwining of theory and policy – is likely to gain in relevance in the decades to come.

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