

ECONOMIC SCHOOLS THOUGHT: MAINSTREAM, ORTHODOX AND HETERODOX ECONOMICS

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Abstract

History of economic thought is very important as it shows the economic evolution of humanity. Besides, economic transformations in the last century witnessed the sharpest divisions. These divisions especially based on two basic points. A very general division can be made as neo-classical economics, which is the continuation of classical economics and other economics thoughts that cannot be analyzed as a part of classical economics. It is possible to say that economics can be basically divided into two parts in terms of economics structure: orthodox economics and heterodox economics. Generally, orthodox economics is associated with neo-classical economics; but heterodox economics include almost all the economic thoughts except neo-classical economics. This paper discusses the points in both economics approaches (orthodox economics and heterodox economics). Also, it will become easy to discuss the reason why heterodox economics developed an opposing against orthodox economics.

Keywords: Economic Schools, orthodox economics, neo-classical economics, heterodox economics.

1. Introduction

Economics has always been marked by the coexistence of different schools of thought or approaches. There are indeed significant differences among several schools, so that identifying and classifying them such as mainstream, orthodox and heterodox is important. The concept of mainstream economics is based on prestige and influence and includes ideas thought in prestigious schools. The current mainstream (Orthodox economics) can be defined as giving neo-classical economics apprehension, as it has a hegemonic way which dominates whole economics education, institutions and politics and all other thoughts. Neo-classical economics has a widespread superiority. Since 1970's Keynesian economics has not produced any alternatives to solve the problems of economics in praxis and as a result of this, the theory has been argued. Neo-classical theory has gained superiority. (Emiroğlu, 2006, pp. 661-662)

Heterodox economics can be defined negatively, in opposition either to the orthodoxy or to the mainstream. Also economists who claim that orthodox economics' political approach is disadvantageous and such political opinions have come together under an opinion called "heterodox economics". We can call the heterodox economics like as such: Austrian Economics, Behaviorist Economics, Black Politics Economics, Ecological Economics, Evolutionist Economics, Feminist Economics, Historian Economics, Georgics Economics, Institutional Economics, Marxist Economics, Post-Keynesian Economics, Post-modern Economics, Post-colonial Economics, Rhetoric Economics, Social Economics, and Sraffa Economics. (Emiroğlu, 2006, p. 346)

When we put up its religious connotations, Orthodox means "correct" (orthos) and "belief, teaching" (doxa), namely, correct belief in Greek. It is used for applications that are about generally accepted views and traditions in economics; economic policies that are made of generally accepted applications are named orthodox economic policies. Heterodox is made of Latin words of "different" (heteros) and "belief, teaching" (doxa); and the word is used for naming applications except traditional views and approaches. (Eğilmez, 2013, p. 1)

Economics that is defined as orthodox economics is named as mainstream in economics literature which means that main-stream dominates both processing of state economies and every kind of institutionalization in the system of that economy. Mainstream economics here serves to denote the powerful common disciplinary element that has been criticized variously in recent years for its methods and conceptualization of "economic" phenomena. The critiques have come from methodologists and from diverse heterodox theoretical approaches such as feminist, Marxist, post-Keynesian, ecological, Austrian and so on. (Kaul, 2002, p. 709)

The goal of this study is to touch on differences of different economic views that called orthodox and heterodox economics.

2. Methodology

The main research question is :What are the points in both economics approaches (orthodox economics and heterodox economics)?

This paper tries to answer this question by using Scientists comments and with a descriptive analytical method and using library resources and documents .

3. Results

3.1. Mainstream economics

The term "mainstream economics" came into common use in the late 20th century. It appears in 2001 edition of the seminal textbook Economics by Samuelson and Nordhaus on the inside back cover in the "Family Tree of Economics," which depicts arrows into "Modern Mainstream Economics" from J.M. Keynes (1936) and neoclassical economics (1860–1910). The term "neoclassical synthesis" itself also first appears in the 1955 edition of Samuelson's textbook.

Mainstream economics is widely accepted economics as taught across prominent universities, in contrast to heterodox economics. It has been associated with neoclassical economics and with the neoclassical synthesis, which combines neoclassical methods and Keynesian approach macroeconomics(Olivier J. Blanchard,2008).

Mainstream economics can be defined, as distinct from other schools of economics, by various criteria, notably by its assumptions, its methods, and its topics. Mainstream economics may be

called orthodox or conventional economics by its critics. Alternatively, mainstream economics deals with the "rationality-individualism-equilibrium nexus" and heterodox economics is more "radical" in dealing with the "institutions-history-social structure nexus."

A number of assumptions may underpin many mainstream economic models, while being rejected by some heterodox schools. These include the neoclassical assumptions of rational choice theory, a representative agent, and, often, rational expectations. Much of modern economic modelling consists of exploring the effects that complicating factors have on models, such as imperfect and asymmetric information, incomplete markets, imperfect competition and transaction costs.

Mainstream economics has also been defined methodologically as work which mainstream economists are willing to engage, which requires conforming to the mainstream language of mathematical models, featuring calculus, optimization, and comparative statics. Under this definition, areas of thought which are typically thought of as heterodox because they do not work under the typical neoclassical assumptions, such as behavioral economics, and evolutionary economics, can be considered mainstream when they are engaged in the mainstream, using mainstream methods. Geoffrey Hodgson has considered the possibility that evolutionary economics and institutional economics may eventually become a new mainstream (Hodgson,2007).

Mainstream economists are not generally separated into schools, but two major contemporary economic schools of thought have been the "saltwater and freshwater schools." In the early 1970s, so-called "fresh-water economists" challenged the prevailing consensus in macroeconomics research. Key elements of their approach was that macroeconomics had to be dynamic, quantitative, and based on how individuals and institutions make decisions under uncertainty.

Mainstream economics includes theories of market and government failure and private and public goods. These developments suggest a range of views on the desirability or otherwise of government intervention.

Some economists, in the vein of ecological economics, believe that the neoclassical "holy trinity" of rationality, greed, and equilibrium, is being replaced by the holy trinity of purposeful behavior, enlightened self-interest, and sustainability, considerably broadening the scope of what is mainstream (Nadeau, Cutler J. Cleveland , 2008).

3.2. Heterodox economics

A starting point for most definitions of heterodox economics is to assume that it is nonmainstream economics. So heterodox economics refers to methodologies or schools of economic thought that are considered outside of "mainstream economics", often represented by expositors as contrasting with or going beyond neoclassical economics. Heterodox economics is an umbrella term used to cover various approaches, schools, or traditions. These include socialist, Marxian, institutional, evolutionary,Georgist, Austrian, feminist, social, post Keynesian (not to be confused with New Keynesian), and ecological economics among others. Heterodox economics is then distinguished by its rejection of all this and by its commitment to an ontological analysis that takes social reality to be intrinsically dynamic or procession, interconnected and organic, structured, exhibits emergence, and includes value and meaning and is polyvalent.

There is no single "heterodox economic theory"; there are many different "heterodox theories" in existence. What they all share, however, is a rejection of the neoclassical orthodoxy as representing the appropriate tool for understanding the workings of economic and social life. The reasons for this rejection may vary. Some of the elements commonly found in heterodox critiques are listed below.

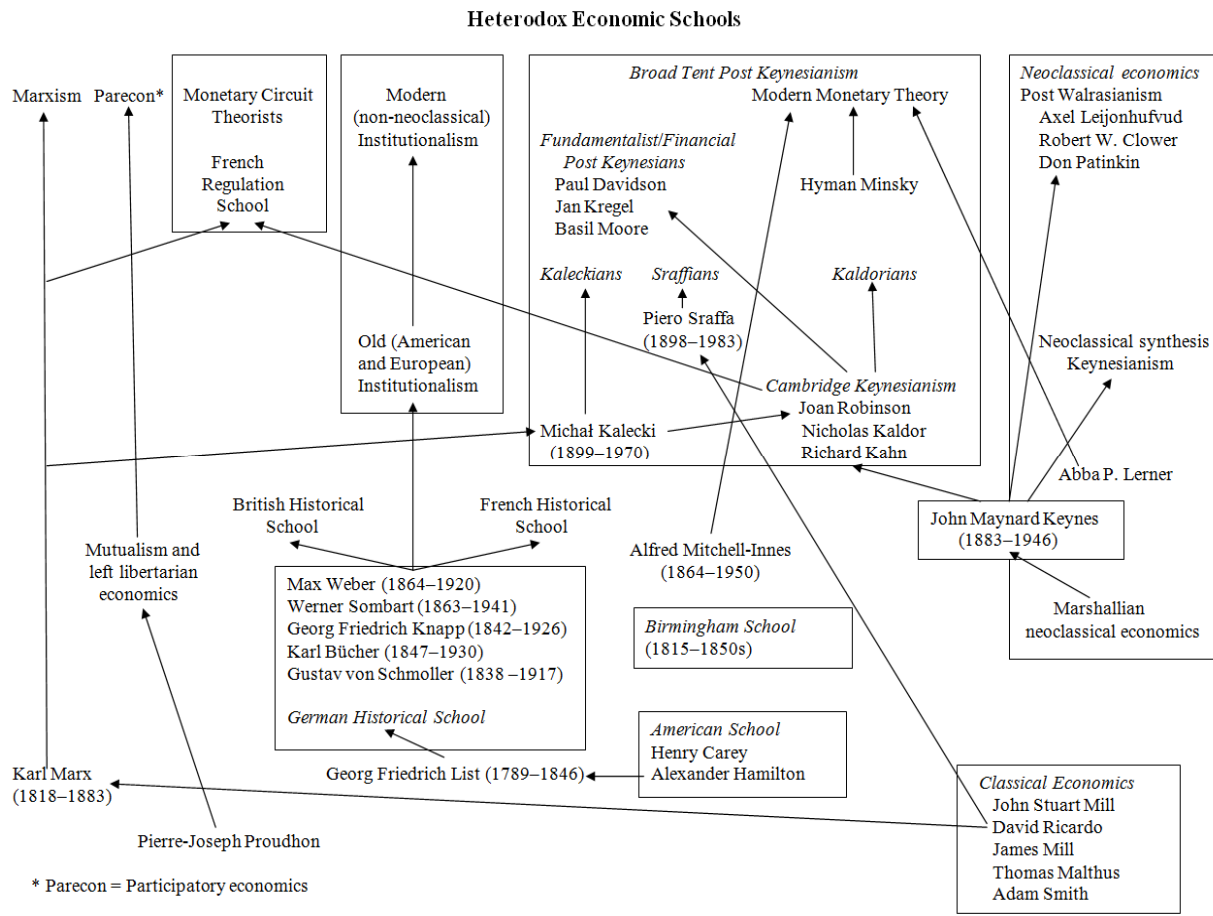
One of the most broadly accepted principles of neoclassical economics is the assumption of the "rationality of economic agents". Indeed, for a number of economists, the notion of rational maximizing behavior is taken to be synonymous with economic behavior. When some economists' studies do not embrace the rationality assumption, they are seen as placing the analyses outside the boundaries of the neoclassical economics discipline. Neoclassical economics begins with the a priori assumptions that agents are rational and that they seek to maximize their individual utility (or profits) subject to environmental constraints. These assumptions provide the backbone for rational choice theory. Many heterodox schools are critical of the homo economics model of human behavior used in standard neoclassical model. Another one is criticism of the neoclassical model of market equilibrium. In microeconomic theory, cost-minimization by consumers and by firms implies the existence of supply and demand correspondences for which market clearing equilibrium prices exist, if there are large numbers of consumers and producers. Under convexity assumptions or under some marginal-cost pricing rules, each equilibrium will be Pareto efficient: In large economies, non-convexity also leads to quasi-equilibria that are nearly efficient.

However, the concept of market equilibrium has been criticized by Austrians, post-Keynesians and others, who object to applications of microeconomic theory to real-world markets, when such markets are not usefully approximated by microeconomic models. Heterodox economists assert that micro-economic models rarely capture reality.

Mainstream microeconomics may be defined in terms of optimization and equilibrium, following the approaches of Paul Samuelson and Hal Varian. On the other hand, heterodox economics may be labeled as falling into the nexus of institutions, history, and social structure.

It was argued above is a negative concept of heterodox economics would consist therefore of all the schools of thought and approaches that differ from neoclassical economics.

Adopting the positive approach depends on identifying something that all stands of heterodox economics have in common, apart from their common opposition to, or differences with, the orthodoxy or the mainstream. From the perspective of the positive approach, therefore, heterodox economics must be an intellectual category. Someone might, in principle, maintain that this positive concept of heterodox economics is also general, in the sense of being applicable to any period of the history of economic thought. The problem, however, is that, in some cases, the result of the application is an empty set. This occurs when one concludes that it is impossible to find any significant ideas common to every economist or approach that does not belong to the orthodoxy or the mainstream. In such cases, one would be forced to adopt the purely negative approach.



3.3. differences between heterodox economics and the mainstream

Although schools of economic thought are often defined in terms of theory, definitions of heterodox economics are often methodological (here, meaning to deal with methods and/or their ontological and epistemological underpinnings). For Lee (2010a) the essential difference between heterodox economics and the mainstream is of whether they theories the provisioning process as social rather than individual. Lawson (1997) argues that heterodoxy can be identified as advocating depth realism and open systems. Dow (2000) similarly argues that heterodox views share a belief in open systems (although the concept may mean different things to different groups. For Lawson (2006), heterodox economics has many elements, but the essential nominal difference between it and the mainstream is that the latter insists on mathematical modelling. Underlying that, Lawson (2006, 2009) argues, is a real essence of heterodox economics which is a particular social ontology, which is structured and open. Colander (2009) shares Lawson’s view and defines the mainstream as being an attitude, a “willingness to compete within a given set of rules and institutional structures”, and heterodoxy as a willingness to do think otherwise.

a discussion of relevant literature on heterodox economics suggests that it can be defined in terms of key ideas, which are often methodological rather than theoretical; that to be a heterodox economist is to identify with these ideas; that these ideas are often self-consciously opposed to mainstream ideas, and consequently, that heterodox economists set themselves up as opposed to

the mainstream; and that heterodox economics may also reflect power relations within the Economics discipline. It may appear that the task of defining heterodox economics is complete. A feature of many treatments of heterodox economics is to claim that a central element of heterodox economics is that its members self-identify as heterodox. Davis (2009) argues that heterodox economists can be identified partly in terms of their orientation, i.e. in terms of their desire to change mainstream economics, or to operate outside it. This strand of the literature is important for at least two reasons. First, several authors focus on heterodoxy as attitudinal, as a state of mind, as rejecting sets of rules, theories or practices, and actively espousing other sets. Second, when we consider sociological definitions of heterodox economics, power becomes crucial. The use of labels can itself be a source of power. If heterodox economists have labelled themselves, this may indicate a source of power; whereas if they have been labelled thus by the mainstream, that suggests very different power relations.

4. Conclusions

The present paper has compared and contrasted the concepts of mainstream, orthodox and heterodox economics. Orthodox economics is a temporally general concept and this category is currently represented by neoclassical economics. Neoclassical economics is characterized by the combination of (1) the emphasis on rationality in the form of utility maximization, (2) the emphasis on equilibrium or equilibria, and (3) the neglect of strong kinds of uncertainty and particularly of fundamental uncertainty. The concept of mainstream economics defended here is sociological, based on prestige and influence. The sociological concept of mainstream economics is temporally very general.

Orthodox economics is also a temporally concept, and this category is currently represented by neoclassical economics.

Heterodox economics is arguably the most controversial of the concepts considered here. One can define heterodox economics negatively, in opposition either to the orthodoxy or to the mainstream. Another possibility would be to define heterodox economics positively, as an intellectual category that is not defined exclusively in opposition to orthodox.

Heterodox must be sought outside the mainstream. The fundamental challenges to the orthodox come from political economists developing Marxist, institutional, post-Keynesian, feminist and ecological alternatives, not from those economists creating minor product differentiation within the mainstream. This is the common ground on which most of the critics of the mainstream stand.

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