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Heterodox economics as seen by Geoffrey Hodgson: an assessment*

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Geoffrey Hodgson has recently published a book where he wonders why heterodox economics seems to thrive while at the same time losing ground within the most prestigious universities. Although Hodgson considers himself to be a heterodox economist, he complains about the way heterodoxy has been defined by some of its most active thinkers, in particular Frederic Lee and Tony Lawson. Hodgson believes that heterodox economics should be defined neither by a left-leaning ideology nor by critical realism. He argues that too much energy has been devoted to the study of macroeconomics by the Marxist and post-Keynesian brands of heterodox economics, as they left aside what he believes to be the crucial issue of microeconomic behaviour which can be found in behavioural and evolutionary economics. Hodgson further argues that what he considers to be the decline in the impact of heterodox economics is partly due to a lack of quality control. The paper outlines and comments on these various assertions.

Keywords: *post-Keynesian economics, heterodox economics, formalism, ideology*

JEL codes: *B40, B50*

1 INTRODUCTION

In 2017 Geoffrey Hodgson presented a paper titled ‘The pathology of heterodox economics and the limits to pluralism’.¹ This exploration into the sustainability of heterodox economics has been extended into the format of a book, with a less provocative title: *Is There a Future for Heterodox Economics?* (Hodgson 2019a). I believe that the book has to be taken seriously, if only because it contains nearly 50 pages of references to heterodox and methodology works, but also because the future of the various schools of thought that compose heterodox economics is something that concerns and worries us all.² In addition, Hodgson is a prolific writer (I counted a dozen of his books in his list of references) and the editor of the *Journal of Institutional Economics*, a publication which he refuses to label as a heterodox journal but which publishes both orthodox and heterodox contributions (Hodgson 2019a: 77). Besides this, Hodgson did study Sraffian economics,

* In a sense this paper is an outgrowth of a presentation that I made in July 2019 in Lille, France, at a plenary session called ‘Approaches to Political Economy and its Future’ of the joint annual meeting of the Association française d’économie politique (AFEP), the International Initiative for Promoting Political Economy (IIPPE) and the Association for Heterodox Economics (AHE).

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1. The paper seems pretty hard to find through Google. According to Chester (2019: 2), it was presented in various locations: at the 2017 WINIR conference, at the Cambridge Critical Realist workshop and at the 2018 STOREP conference.

2. Not so long ago, Frederic Lee and I felt obliged to edit a book of 13 essays devoted to the defence of post-Keynesian and heterodox economics (Lee/Lavoie 2013).

and after having drifted towards Institutional economics and while pursuing his scholarly career, he went back to get graduate degrees at the University of Cambridge in the 1990s. Indeed the particular attention that he devotes to the post-Keynesian strand of heterodox economics, which he sometimes associates with its core, no doubt arises from his contact with Sraffians and his stay in Cambridge.³ All of this certainly justifies a general assessment of Hodgson's most recent views in a review like *EJEEP: Intervention*.

The motivation of the book, or so it seems to me, is to tackle an apparent paradox: heterodox economics (however defined) is ever more popular, getting good media coverage, with a relatively large number of heterodox economists publishing an ever greater number of papers and books, and with flocks of master's and doctoral students showing up at heterodox conferences and heterodox summer schools; but at the same time the situation of heterodox economics within the academia is ever more precarious and its presence in economics departments at prestigious institutions has almost entirely vanished (except in Brazil). More than ten years after the beginning of the global financial crisis, which led to so many questions and critiques regarding the worth of the dominant schools of economics, Hodgson contends that the influence of heterodox economics is still in a state of cumulative decline.

Hodgson tries to provide some explanations for this conundrum. There are essentially five themes, or complaints about the turn that heterodox economics has taken, each roughly corresponding to the chapters of his book. The first problem that he identifies is that heterodox economics has painted itself into a corner by being associated with a left-wing position, while assuming that neoclassical economics (or orthodox or mainstream economics, whatever one wishes to call it) is necessarily coupled with a right-wing ideology. The second problem is that there is no single identifier or set of characteristics that one can pin onto heterodox economics. Different writers have diverse views about what is heterodox economics or which schools of thought belong to heterodox economics, or what, if anything, unites them. The third problem is that heterodox economics has overly focused on macroeconomics and has not paid enough attention to microeconomics. Hodgson believes that neoclassical economics stands or falls with its microeconomics and still essentially relies on the assumption of a maximizing agent. As a consequence – and this is the fourth problem – heterodox economists as they are usually defined have omitted to take into account the work of behavioural economists such as Herbert Simon or the work of evolutionary economists such as Nelson and Winter. The fifth cause of the stagnation of heterodox economics, perhaps best tied to the provocative title of his 2017 initial paper, which generated a heated response from Lynne Chester (2019), a response completely ignored by Hodgson in his book, is related to the heterogeneity of heterodox economics, which, in its efforts to promote pluralism, lacks consensus and systematic quality control.⁴

3. Nobody is perfect: Hodgson (2019a: 15) writes that '[w]hen Joan Robinson, Paul Davidson and others established their inter-continental heterodox network they settled on the term *Post Keynesian*. Yet we still find variants such as *post-Keynesian* in widespread use'. The truth of the matter is that in 1969 Robinson and Alfred Eichner settled on the denomination of *post-Keynesian* economics, so as to move away from the then popular appellation *neo-Keynesian economics* to designate the Italo-Cambridge school mainly based on its models of growth and distribution (see Lee 2000: 113). Paul Davidson adopted instead the term *Post Keynesian* in an effort to enlarge the range of authors beyond the *Cantabrigian* economists, so as to include economists such as Hicks, Harrod and Lerner (and later Eisner and Tobin). Another point where Hodgson is factually mistaken is when he writes that 'no defence of the Sraffian approach appeared in response to Hahn in the journal [the *Cambridge Journal of Economics*]' (Hodgson 2019a: 25). Duménil/Lévy (1985) did respond to Frank Hahn's (1982) critique of the Sraffian model.

4. Hodgson (2019b) did reply to Chester (2019) in an article, but her critique is not cited in his 2019 book.

In his last chapter, Hodgson proposes a number of avenues that may improve the standing of heterodox economics, although Hodgson realizes that none of them will constitute an easy way out.

There is some ambiguity in the way Hodgson defines the subject of his book – heterodox economics. His main target seems to be what he calls *Cantabrigian* heterodoxy, which he associates with ‘all streams of heterodox [sic] that were strongly influenced by Keynes, Robinson, Kaldor or Sraffa’ (Hodgson 2019a: 15). Thus, most of the time, he seems to refer to post-Keynesian economics when he is discussing the features and failures of heterodox economics. This would be a continuation of criticisms previously expressed in an interview, where he said that

[s]ome Post Keynesian economists preoccupy themselves with interpreting what Keynes really meant, and there is insufficient self-criticism and innovation in this school of thought. The 1970s project of the Cambridge school and others of building a heterodox alternative around figures such as Marx, Kalecki, Keynes and Sraffa was ill-planned at the outset, as it papered over too many cracks. It has since proved unviable and no longer holds sway in any major university. (Hodgson in Labrousse/Vercueil 2008: 4)

On the other hand, Hodgson himself sometimes seems to take heterodox economics as something much wider than just post-Keynesian economics, as it includes Marxists, neo-Austrians and Institutionalists (of all stripes?) among others, and as he chastises Frederic Lee for having ignored the work of Herbert Simon or that of evolutionary economists, as well as that of the French Regulation school (Hodgson 2019a: 59–60). But whatever Hodgson believes heterodox economics to be, he has claimed that ‘in earlier publications and the 2019 book, I reveal myself as an unashamed heterodox economist, because I reject the utility-maximizing, equilibrium-oriented core of neoclassical economics’ (Hodgson 2019b: 22).

2 HETERODOX ECONOMICS LEANING OVERLY TO THE LEFT?

One theme that permeates the whole book is the claim that the socialist calculation debate that occurred in the 1920s and 1930s has been utterly ignored by heterodox economists. The debate, Hodgson says, besides Austrian economists such as Hayek and von Mises, involved defenders of neoclassical general equilibrium theory (Lange, Lerner, Dickinson) who argued that planning in a socialist economy without markets was quite feasible. Hodgson further recalls that Walras and Walrasians such as Arrow held socialist ideas, and that analytical Marxists (or feminist economists for that matter) use neoclassical tools, thus demonstrating that neoclassical economics is not necessarily associated with a pro-market bias. While chapter 1 devotes several pages to the debate, the complaint that heterodox economists ignored its lessons on the feasibility of socialism reappears tiresomely time and time again, in fact much more often than can be assessed by consulting the index.

As pointed out earlier, Hodgson believes that it is a grave error to associate heterodox economics with left-wing economic policies. And he complains that Frederic Lee and others have mistakenly excluded (most of the time) neo-Austrian authors, who are also concerned with fundamental uncertainty, from the realm of heterodox economics. Ever since the 1980s, just like Hodgson, I have come to admit that neoclassical economists are quite capable of introducing frictions and imperfections in their models, thus allowing them to advocate government intervention such as capital controls or redistribution policies. But I think that it is fair to say that neoclassical economists *in general*, as recognized by Hodgson, use their models to advocate pro-market policies and have an optimistic view about the reliability of unfettered markets. I have myself excluded neo-Austrians from the heterodox

grouping, since I believe that besides emphasizing radical uncertainty, they have little in common with the other heterodox schools of thought as reflected in their respective key presuppositions (Lavoie 2014: 29–30).

In any case, one may wonder why Hodgson pays so much attention to this debate on socialist calculation. The first reason is that Hodgson (2019b: 24) believes that ‘viewpoint diversity helps scholars reach across ideological dividing lines and make their theories attractive for a wider audience’ – hence the necessity to entertain different stances on the merits of capitalism. The second reason is that Hodgson is persuaded that heterodox economics is overly politicized and that a vast number of heterodox economists (meaning here the Cantabrigian heterodoxy) would like to get rid of capitalism and move towards a socialist economy, with central planning devoid of markets and with public ownership of the means of production (Hodgson 2019a: vii). This would explain why, as written on the back cover, he believes that the ‘weaknesses of a particular version of heterodoxy stemming from the Cambridge economics of the 1970s have been replicated globally in much of contemporary heterodox economics’.

Hodgson is convinced that the heterodox followers of Keynes and Sraffa, even those in ‘the colonial outposts’ of Cambridge (Hodgson 2019a: 47), are or were *full-blooded socialists*. While this may be true of Joan Robinson, who completely misread the respective evolution of South and North Korea, this was certainly not true of Wynne Godley or Nicholas Kaldor (an exception noted by Hodgson), or of those who were associated with them. Indeed, I discussed this with John McCombie, who studied and taught at Cambridge from the 1970s onwards, and he was under no such impression that Cambridge post-Keynesians wished to get rid of capitalism. I would add that, with the exception of a few individuals (such as Fred Lee) who argued that capitalism should be replaced, post-Keynesians of all strands only wish to tame capitalism, just as Keynes himself aimed to do. Thus, Hodgson did not persuade me on this issue, especially as he relies on the biased testimony of the Canadian Harry Johnson. If one desires to provide explanations of the debacle of post-Keynesianism in Cambridge, I believe it is best to read the testimony of Luigi Pasinetti (2007).

3 HODGSON VERSUS LAWSON

If Hodgson is not convinced by Lee’s left-leaning definition of heterodox economics, he is even less swayed by the arguments provided by Tony Lawson on the basis of his critical realism, tied, he says, to ‘hard-boiled socialism’ (Hodgson 2019a: 71). Hodgson notes that despite the attention that methodologists and some post-Keynesians, Fred Lee included, have paid to Lawson’s writings and his homage to transcendental and critical realism, thus aligning themselves by default with its hard-left baggage, his definition of heterodoxy has not been widely accepted. Hodgson (2019a: 66) refutes Lawson’s claim, also supported by Sheila Dow, that ‘the openness of the real world requires us to adopt a theory that is “open” in some sense’. I could also never make practical sense of that distinction between open and closed systems (Lavoie 2014: 29). It seemed to me that when an approach or model was disliked, it would be branded as a closed system.

Lawson, as is well known, identifies orthodox economics with its insistence on mathematical modelling, something that heterodox economists all decry. But Lawson’s limits on the usefulness of formalization are so restrictive that, as Hodgson (2019a: 69–70) points out, for all practical purposes they end up excluding Sraffians and many post-Keynesians from the heterodox camp. Chester (2019: 9), in her comment on Hodgson, objects that ‘Lawson has repeatedly refuted the notion that his definition suggests blanket opposition

by heterodox economists to the use of mathematical formalism', since what he is opposed to is only 'the abuse of mathematical formalism' (Lawson 2009: 190). This also used to be my understanding of Lawson's position. However, in view of Lawson's more recent statements, Hodgson's interpretation appears to be the correct one.

Lawson appears to have become more and more frustrated by the usage of mathematical modelling by heterodox economists. He is now much more explicit about what he judges to be acceptable within heterodox economics as he has become quite critical of the present developments of heterodox economics, saying that 'people are now claiming the heterodox label for themselves whilst allocating much of their time to mathematical modelling So heterodox contributions have become increasingly weak and of little relevance to the real world' (Lawson in Mearman et al. 2019: 142), adding that their models are 'worthless all the same because the methods are just irrelevant' since 'modelling necessitates false assumptions' (ibid.: 144).⁵ This has led one of his followers to make a distinction between *consistent* heterodox economists, who do not formalize, while those who do are said to be 'confused, inconsistent, heterodox economists' (Slade-Caffarel 2019: 534). Thus while Hodgson and myself are in agreement that most neoclassical economists are obsessed with mathematical technicity, we also both agree, in contrast to Lawson, that this does not preclude the use of modelling by heterodox economists in reaching relevant achievements.⁶ Lawson may still concede that these post-Keynesian, Sraffian or evolutionary modellers are part of the heterodoxy, but he will claim that, despite being concerned with the world as it is, they are inconsistent heterodox authors who waste their time and fail to see the true light.

This is not the first time that Hodgson objects to Lawson's definition of orthodox and heterodox economics. In 2009, Hodgson published some comments on Lawson's views about mathematical formalism. Lawson (2009) devoted 42 pages to replying to Hodgson's 14 pages of comments. Hodgson (2009: 186) argued that 'the problem with formalism is not the general inappropriateness of formalism itself', but rather the fact that mainstream economics uses formalism 'as an intellectual game played for its own sake rather than for its use in explaining and engaging with the real world'. Thus Hodgson appears to take a view of realism which is close to that of Mäki (1989), which is different from Lawson's.

4 MICROECONOMICS

Hodgson also seems dissatisfied with Lee's characterization of the core of orthodox economics as being based on scarcity, equilibrium, rationality, preferences and methodological individualism – a definition to which I would add instrumentalism (Lavoie 1990; 2014, ch. 1; cf. Setterfield 2003). Hodgson's alternative definition of heterodox economics is its rejection of the utility-maximizing agent with preference functions, which he calls Max U, and which in his opinion is at the heart of past and current mainstream economics. Hodgson is thus completely in disagreement, and rightly so, with the views which were expressed 15 years or so ago by David Colander, John Davis and a few others to the effect that orthodox economics as a whole has been moving away from maximization

5. When asked about stock–flow consistent models, and the fact that their origins are Wynne Godley's attempt to better understand the economy as it is, Lawson (in Mearman et al. 2019: 143) responded that '[i]f you're using an inappropriate method to address claims rooted in reality, then it is all rather inconsistent, and the results can only be irrelevant'.

6. The veracity of results achieved through econometrics is another matter. I fully realize that econometrics, and especially time-series econometrics, is a soft science, as recently reassessed by Imad Moosa (2017). But this does not mean that heterodox economists should forsake econometrics.

under constraint. Hodgson argues that utility maximization has enabled the particular kind of formalism that still characterizes neoclassical economics today and that game theory has not displaced Max U – thus the title of his chapter 3: ‘Rumours of the death of Max U are exaggerated’. Hodgson asserts, however, that heterodox economists and post-Keynesians in particular have failed to identify and attack this core presupposition. This seems rather unfair. Earlier post-Keynesian critics have said just the same: Amitava Dutt (2003) has defined mainstream economics as being wrongfully based on constrained optimization. And John King (2012) has devoted an entire book to a condemnation of the RARE hypothesis in mainstream economics – that is, the representative agent with rational expectations.⁷

Staying within the domain of rationality, Hodgson maintains that Marxist and post-Keynesian economists have paid too little attention to behavioural economics. This may be so in general, as confirmed by John King’s (2013) review, but a number of post-Keynesians – Harvey (1998), Fontana/Gerrard (2004) and Dow (2013) – have emphasized the need to link up with behavioural economics. I have myself called attention to the importance of the work of Herbert Simon or of Cyert and March, or even to that of Hodgson (Lavoie 2014: 88). I have also underlined the work of two contemporary researchers who are also mentioned favourably by Hodgson: Peter Earl on the economics side and Gerd Gigerenzer on the psychology side, the latter being a keen critic of new behavioural economics and an advocate of the old behavioural economics *à la* Simon. Just like Hodgson, post-Keynesians have objected to the turn that new behavioural economics has taken, where actual observed behaviour is understood as deviating from utility-maximizing behaviour and where references to satisficing or targets as rules of conduct are being left aside.

As mentioned earlier, Hodgson regrets that the main strands of heterodox economics did not link up with evolutionary economics, whatever its definition, and in particular with the work of Nelson and Winter. I must confess that I paid little attention to their work, but one cannot venture into all fields. Hodgson himself, despite his 50 pages of references, as implied above, has not cited all that is essential today for twenty-first-century post-Keynesian economics. Notwithstanding this, in particular through the efforts of the European Association for Evolutionary Political Economy, there is now much more interaction between post-Keynesians and Schumpeterians, at least those who through their common presuppositions, notably related to the kind of rationality which is incorporated into their models, do belong to the heterodoxy. I have in mind a recent book by Shiozawa et al. (2019), whose ambition is to provide microfoundations pertinent to evolutionary, post-Keynesian and Sraffian economics, and also Giovanni Dosi and several economists, directly related to him or not, who are engaged in agent-based modelling that puts together Schumpeterian and post-Keynesian insights.

Hodgson mentions Alchian among the many disconnected strands of evolutionary economics: he should know that there are multi-sectoral agent-based models that incorporate Alchian-like selection mechanisms to post-Keynesian stock–flow consistent features with endogenous money and leverage ratios (Seppecher et al. 2018). While evolutionary

7. While Hodgson (2019a: 69) mentions Roger Backhouse’s interesting definition of a heterodox economist as someone who claims ‘to be working in a way that does not fit with the dominant way of doing economics, or to be offering an alternative that is not compatible with this’, he omits to refer to Backhouse’s (2004: 265) definition of orthodox dissenters as economists who ‘are typically trying to change particular ideas rather than engaging in root and branch rejection of conventional ideas’. I believe that going beyond a dual definition of orthodoxy, and creating this third category of orthodox dissenters, helps to remove much confusion around the definition of heterodoxy and the classification of authors such as Ostrom, North, Williamson, Akerlof, Sen or Coase.

economics seems to be Hodgson's preferred direction, he readily admits that evolutionary economics is no better than post-Keynesian or other heterodox economics, in the sense that there seems to be little agreement on what ought to constitute its core (Hodgson 2019a: 109). Furthermore, he notes that it faces the same problems as the rest of the heterodox schools, since evolutionary economics is not much present in economics departments.

5 POSSIBLE STRATEGIES

Possibly the most provocative sections of Hodgson's book are to be found in the last two chapters, where he discusses what he believes to be the drawbacks of a pluralistic heterodox community and the possible ways forward for heterodox economists. Hodgson is far from naïve: he recognizes that any proposed strategy faces the hard fact that mainstream economics has declined to change despite the global financial crisis and that engagement with the economics establishment is even more difficult than it used to be. One account of the difficulties encountered by heterodox economics that Hodgson does not mention is the explanation advanced by Thomas Palley (1997) and demonstrated in a little model: if two groups coexist and compete for the same space, one being pluralistic while the other is mono-theoretic, the size of the pluralistic group will keep on shrinking, something which, sadly, I observed in my own department.

Hodgson believes, based on his understanding of philosophers of science such as Kuhn or Michael Polanyi, that alternative schools of thought ought to have a clear view of their *raison d'être*. Besides, they need to be less dispersed, and they need leaders who impose critical feedback and tougher standards while imposing some consensus views that allow the tradition to progress. Hodgson (2019a: 152) seems to imply that there are too many cranks among heterodox economists, and hence that these should be weeded out. According to Hodgson (2019a: 3), 'inadequate quality control has created severe reputational problems for heterodox scholarship'. Ideally the leaders should be in high-ranking departments or universities, and they should run journals with high impact factors so as to ensure academic jobs in worthy universities for junior researchers who wish to associate themselves with these schools of thought. One way to achieve this would be to specialize in some fields: for instance, Hodgson (2019a: 166–167) says that post-Keynesians ought to focus on the Minskian strand of their theories or adopt modern monetary theory (MMT), which has had such a large impact in the mainstream and social media, with central bankers and mainstream economists now being forced to comment on it.

In view of what was said about Max U, the reader will not be surprised to learn that one of Hodgson's favourite strategies would be to further attack the Max U hypothesis, through experimental economics and brain studies, or by creating a journal such as the *Journal for the Analysis of Economic Motivation*. Another suggested focus for future heterodox economists is institutional economics and the study of the evolution of organizations. Hodgson notes, however, that critiques of Max U or economic works on institutions are not so easy to get published in top journals.⁸ Thus, the best route would be to adopt a multidisciplinary framework (including 'anthropology, biology, geography, history, law,

8. Incidentally, when I participated in a session devoted to the role of behavioural and experimental economics at the 2014 annual meeting of the Canadian Economics Association I heard the same complaint from Jack Knetsch, a former co-author of Kahneman. He pointed out that all of his eight submissions on behavioural economics to the *Canadian Journal of Economics* had been rejected, another proof that the announcement of the death of Max U is premature!

politics, psychology, social theory and sociology' (Hodgson 2019a: 173)). He gives as examples the successes of the World Interdisciplinary Network for Institutional Research (WINIR), with its Scientific Quality Committee and its inclusiveness strategy of reaching out to mainstream economists, as well as the *Journal of Institutional Economics (JOIE)*, of which he is the editor-in-chief, with its editors of all political stripes and its high impact factor (similar to that of the *Cambridge Journal of Economics*, but much below that of *Ecological Economics*).

Hodgson rejects the notion that a successful academic program should not be judged by the number of students that it attracts; should we judge the success or the usefulness of a research programme by the impact factor of its journals?⁹

6 CONCLUSION

Obviously, I found the book tantalizing, otherwise I would not have devoted any of my time to discussing its contents. However, at the end there is some disappointment. We all know that the name *heterodox economics* is a name that several heterodox economists dislike or find 'awkward' (Thornton 2017: 62), but besides *political economy* or *real-world economics* or the *new economics paradigm*, not much else has been proposed, despite some arguing that heterodox economics is a 'label for losers' (Fullbrook in Mearman et al. 2019: 256). And we all know how difficult it is for non-mainstream economists to have an impact such as the one achieved by MMT and to access positions in well-recognized universities.

It seems to me that Hodgson, who is an Institutionalist economist, should have emphasized more strongly the importance of creating institutions for the development of schools of thought.¹⁰ Having sat in 2019 on a Commission created to recommend how full professors in economics should be recruited in France in the future, I have come to recognize the importance of lively organizations such as the Association française d'économie politique (AFEP)¹¹ in influencing such crucial processes in favour of the survival of heterodox economics, sometimes by its mere existence. The other obvious example is the existence of the Forum for Macroeconomics and Macroeconomic Policies (FMM), which is doing so much to promote post-Keynesian economics and alternative economic policies, in Germany and by extension elsewhere, with over 350 attendants at its annual conferences, most of whom are young scholars.

It may yet be too soon to appraise the future prospects of heterodox economics in general and of post-Keynesian economics in particular. But whatever happens, it is reassuring for now to see that some of our younger colleagues do claim for themselves the designation of heterodox economists (Kvangraven/Alves 2019). In the meantime, I would advise heterodox economists belonging to one tradition to study the theories advanced by members of other heterodox traditions, not so much to dismiss or criticize these other approaches, but rather in an attempt to improve or complete some aspects their own theories.

9. Clive Spash (2019) illustrates the difficulties of keeping the radical tradition of ecological economics when its flagship journal – *Ecological Economics* – gets such a high impact factor that it attracts many submissions from mainstream economists (closer to environmental economics and natural resources economics).

10. Hodgson (2019a: 161) mentions the Institute for New Economic Thinking (INET), but he seems to believe that it is closer to orthodox dissenters than to heterodox economists. This sentiment may be explained by the partnerships of INET at Cambridge and Oxford, which have no heterodox content. But its supportive role for the Young Scholar Initiatives (YSI) is clearly heterodox in nature.

11. In English, the French Association for Political Economy.

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