What is heterodox economics? A comment on Hodgson and his critics

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Abstract

This paper critically analyzes Geoffrey Hodgson's definition of heterodox economics as the refutation of the orthodox view that emphasizes utility maximization as its main theoretical core, and his view that it is the fragmentation of heterodox economics that explains its subsidiary role within the profession. Hodgson's views led to a series of responses, that criticize his definition, but also present significant problems of their own. The limitations of Hodgson and his critics' views are contrasted with an alternative definition that emphasizes the importance of conflictive distribution and the principle of effective demand in the long run. The idea of a broad tent, from a sociological point of view, does not preclude the need for a clear analytical definition of heterodoxy. The broad tent should be seen as part of a strategy of survival.

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… if a new or heterodox idea is worth anything at all is worth forceful overstatement, and … this is one of the conditions of its being taken seriously.

Richard Hofstadter[2]

Heterodox economics should be defined in its own terms, not as a reaction to the mainstream or orthodox approach, and as a unified set of propositions.[3] Heterodox economics would be a set of principles that would be backed by a certain community. Of course, the sociology of that community would lead to some degree of debate and dissent within heterodoxy, as it is in fact the case within the mainstream. There is, one might add, significant confusion about the meaning of marginalist and neoclassical economics, and there is no monolithic and consensual approach within the orthodoxy. The mainstream is somewhat fragmented (Roncaglia, 2019), and there are more than a few neoclassical or marginalist schools. Some, like the Austrians, tend to think of themselves as heterodox, an evident confusion.

This argument contrasts with the view expressed by Colander, Holt and Rosser (2004), according to whom heterodox economics should be abandoned, or that the labels orthodox/heterodox themselves meant little or nothing and should be discarded. For them, the mainstream itself was moving on, and the best within the mainstream, the cutting edge as they called them, were breaking away with traditional neoclassical views. In reality, the mainstream is doing fine, and that it is not being abandoned by the best and the brightest (Vernengo, 2013). The mainstream has had, for a while now, a dual strategy. It maintains certain principles that purport to show that markets produce efficient outcomes, even if a significant part of the profession does not believe it is true in practice, and then proceeds to discuss a series of imperfections that are better suited for the complexities of the real world. One can see the so-called empirical turn within the mainstream (Angrist *et al.*, 2017), if one is inclined to think there is one, as part of that strategy. It is the part that has something reasonable to say about the real world.

Both notions – that markets produce efficient allocation of resources, that the factors of production are fully utilized, and the alternative that suggest that imperfections abound and that inefficiencies are the norm – are firmly based on the marginalist theory of value.[4] One group may think that market imperfections are crucial and favor government

[2] In Hofstadter (1968: 120).

[3] See Vernengo (2013). This notion that heterodox ideas must be developed independently from the definition of the mainstream has been picked up since then by Kvangraven and Alves (2019).

[4] Note that many empirically oriented authors might not be aware that they in fact use neoclassical economics. There is an analogous situation with neoliberals as a group. For example, Mirowski (2016) purports that Neoliberalism is a movement or collective and, hence, broader than the neoclassical school of thought. However, in a sense, all neoliberals, whether they understand it or not, believe in some sort of notion that markets are either efficient, or at least better than the government, in allocating resources. In that sense, all neoliberals hold a view that must be based on some notion that comes from the supply and demand theory of relative prices, and their ability to allocate resources (Vernengo, 2016). In other words, many are neoclassical without knowing it, even if the reverse is not true and many neoclassicals are not neoliberals.

intervention, while the other might put more emphasis on government failures, and prefer *laissez faire*. But for both markets are mechanisms for allocating resources, and they do that more or less efficiently depending on what type of imperfection matters the most. At times one group might have the upper hand, while the other might become more relevant in other circumstances, often associated with real economic crises that force changes in the institutional arrangements that sustain capitalist societies. The 1970s was one such period, the one that gave rise to a heterodox group.

The crisis of the real economy, with the collapse of Bretton Woods, the fears about the decline of American Hegemony, and the subsequent stagflation period, brought down the dominant Keynesian Consensus, that was firmly based on a neoclassical interpretation of Keynes, one in which it was imperfections that allowed for government intervention. The new, Neoliberal Consensus, had less space for the more radical elements of the Keynesian Consensus that agreed that government intervention was necessary, but went further and doubted the very notion that markets are allocators of resources, efficient or otherwise.

The question raised by Hodgson (2019; 2021) is whether there is any future for this group that emerged in the 1970s, in particular, in the face of the 2008 crisis, that led many to think that the mainstream and Neoliberalism would vanish, which was even then a clear miscalculation. Hodgson's discussion must start, however, from the question of how to define heterodox economics, the limitations of his critics and of his own definition of it. That question, Hodgson correctly points out, is central to understand the future of heterodox economics.

Vision or Analysis?

The first issue, if one takes Joseph Schumpeter's distinction between vision and analysis seriously, is whether the definition should be about the ideological stance or the analytical tools used by heterodox economists. It seems that it is, in fact, the analytical differences between the marginalist mainstream and heterodox economics that matter, since there are many progressive neoclassical economists, and more than a few relatively conservative heterodox economists.

Hodgson (2021) starts from a critique of two influential definitions of heterodoxy by Tony Lawson and Fred Lee, both emphasizing methodological and analytical stances. Lawson's definition relies on the notion of open systems, and a relative preference for qualitative analysis, according to Hodgson. In that sense, Hodgson is not incorrect to point out that some Austrians, like Friedrich Hayek, that use the marginalist theory of value and distribution – meaning they do believe that relative prices, including factors of production, are determined by supply and demand and the importance of prices as a mechanism for the allocation of resources – would be heterodox in that account. Hayek, in his post-1940s intellectual development, emphasized increasingly the role of complexity, unknowability, and showed a dislike for formalization, not dissimilar to certain Post Keynesian (PK) groups. But Austrians and PKs are very dissimilar.

Hodgson (2021: 605) then proceeds to discuss Lee's views, in which he somewhat mischaracterizes him as defining heterodoxy "as incipiently an anti-capitalist movement." Lee (2012: 340) argued that:

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

While this definition is too encompassing and somewhat vague, it is not clear that it hinges fundamentally on vision or ideology, and that for Lee the heterodoxy is fundamentally an anti-capitalist movement, even if clearly it is part of his view.

Lee's notion of heterodoxy argues correctly that economics deals with the reproductive needs of society, a notion that harks back to old classical political economy, and that prescinds of the idea of markets as allocators of resources. Hodgson's critique is on firmer ground when he suggests that purely sociological definitions of heterodoxy – the ones that describes the heterodox community, whether along the lines of their left of center political stance or their non-market friendly ideology – seem to mischaracterize who is heterodox.[5]

This leads to Hodgson's own definition of heterodoxy, which is built in contrast to the neoclassical or marginalist position. He says:

> I characterize orthodox economics in terms of the prevailing assumptions of utility maximization (Max U) and equilibrium. Hence, I suggest that heterodox economics could be defined primarily in terms of opposition to Max U (Hodgson, 2021: 606).

He then discusses fundamentally the notion of utility maximization, leaving issues related to equilibrium aside. This definition has the advantage of clarity, but it is a misleading definition of the marginalist approach to economics, and provides a flawed view of the heterodoxy.[6]

It is true that one can think of the marginalist approach as a development along the lines of the Benthamite calculus of pleasure and pain, and that the methodological

[5] Even if one disagrees with Hodgson's (2021: 605) notion that Amartya Sen, Herbert Simon, and Richard Nelson and Sidney Winter's work is heterodox, it is still true that many Post Keynesians, and in other schools (Institutionalists, Sraffians, etc.), for example, are not anti-capitalist per se, and their ideology is more reformist, perhaps not very different than many liberally inclined New Keynesians, who are certainly part of the mainstream.

[6] In the session, Gary Dimsky noted that this is an old-fashioned definition of the mainstream, which is true. It harks back to distinctions between classical political economy, and its emphasis on objective sources of value, related to costs of production, and a concern with social classes as the main unit of analysis, and the marginalist turn to subjective value and rational maximizing individual behavior. However, even if old-fashioned, it is still true that the mainstream still uses, explicitly or implicitly, some supply and demand theory of value and distribution. In that sense, Hodgson's choice of vocabulary might be *démodé*, but is not necessarily irrelevant, and his definition of the mainstream grasps something essential about it. However, because his definition is purely negative, opposition to the mainstream, his discussion of heterodoxy is underdeveloped.

individualistic, to use again a Schumpeterian expression, approach is at the basis of the marginalist approach. In that sense, one can think of the development of marginalism along the line of the Bentham/Stuart-Mill/Marshall line as an alternative to the classical paradigm, and the Ricardo/Marx/Kalecki non-utilitarian tradition.[7] But it is not clear that this is Hodgson's point.

Besides, utility maximization is ancillary to the marginalist theory, which is fundamentally about the determination of relative prices by scarcity, by supply and demand, including the prices for capital and labor.[8] Marginalist economics extended the Ricardian notion of diminishing returns to the extensive use of a naturally scarce resource, fertile land, to other 'factors of production', capital and labor. The more intensive use of a factor of production leads to a lower remuneration for that factor of production that is abundant. If the quantity of capital is large, the price of capital, the interest rate, will fall and the demand for capital, investment, adjusts to the level at which it corresponds to full utilization capital. It is true that most marginalist models try to formalize the intertemporal decisions of consumption, i.e. the savings behavior, that might be behind the quantity of capital. But it is not central to the theory. If one assumes a given quantity of capital, the marginalist principle of substitution still works.

However, the notion of quantity of capital, central for marginalism, is problematic, to say the least (Garegnani, 1990). For example, would anyone argue that the Solow growth model, that assumes a given savings rate, is less neoclassical than the Ramsey model because it does not explain endogenously the savings rate as a utility maximization result of consumer behavior? Hodgson's definition would make Ramsey's model orthodox, but Solow's model would be heterodox, since no explicit utility maximization takes place. In fact, many neoclassical synthesis models, with no explicit microfoundations, would be heterodox by his definition.

Both classical and marginalist models tried to solve the question of relative prices for the same reason. Marginalist authors needed the quantity of capital to explain the interest rate, but the quantity of capital required the discount or interest rate in advance. The capital debates showed the limits of their solution.[9] Classical authors needed to explain accumulation that depended on the rate of profit, in equilibrium equal to the rate of interest. But to determine the rate of profit one would need the prices of the means of production, the equilibrium prices, determined for a uniform rate of profit. The circularity is the same. The difference is that classical prices do have a solution, as Sraffa (1960)

[7] That's to some extent the point made by Milgate and Stimson (2009) on the developments in political economy after Adam Smith.

[8] Note that classical authors were concerned with social utility rather than individual, subjective utility. Nobody would produce something that was not useful and for which there would be no demand. Demand was relevant, but the notion was that the changes in demand were slow, and should be analyzed in historical and institutional fashion. In other words what mattered was normal levels of demand, or what Smith called effectual demand. In that sense, utility, like rationality plays an important role in both classical (or the surplus approach) and marginalist analysis. But is very different in both. Adam Smith and Marx certainly assume that competition is at work, and that there is some rationality. But it is not the rational maximizing behavior of the individual that matters. On these issues see Milgate and Stimson (2009).

[9] For the capital debates see Kurz (1987).

demonstrated, that avoids the circularity issues. The classical solution also implies that one distributive variable is determined by historical and institutional circumstances.[10]

An important consequence of discarding the marginalist theory of value and distribution, is that it implies abandoning the mechanism by which investment adjusts to full employment savings, making possible to adopt the Keynesian Principle of Effective Demand, not just in the short-run as a result of an imperfection. That is why a definition of heterodoxy that is independent of the orthodox story makes more sense than Hodgson's own definition. The definition used here, like the one by Hodgson, is analytical and revolves around two elements. Heterodoxy requires both the notion that distribution is determined by historical and institutional factors and depends on class conflict – as it is in the surplus approach theory of value and distribution – and the notion of effective demand in the long run.

An Alternative Definition of Heterodox Economics

Heterodox economics is often defined as *potpourri* of schools, even some heterodox schools, like Post Keynesian economics, are often defined as a big tent of diverse groups (Lavoie, 2022). Further, most of these heterodox schools are defined against marginalism or neoclassical economics, which is also a fragmented school of economic thought. In this sense, the heterodox camp is defined in a negative and fragmented way, that is against orthodoxy and divided depending on what aspect of orthodoxy is contested. A positive and unified definition of heterodoxy is necessary, in the sense of the minimum set of propositions that are universally accepted and that are not defined in terms of the mainstream. This simply would suggest that there is a way of thinking about economics as a field of enquiry that is common to heterodox groups.

Two analytical points are central for any definition of heterodoxy. First, heterodox economists are concerned with the amplified reproduction of society, and this implies that the production and distribution of the social surplus is central for their theories. This is part of a tradition that harks back to classical political economy and Marx. The determination of the surplus implies that distribution is determined by social and institutional conditions, be that the real wage as affected by the bargaining position of the labor class, or the rate of profit as determined by the monetary rate of interest influenced by the central bank. Further, the determination of surplus, for an externally determined distribution, and a given technology, provides an explanation of relative prices (value).

It is important to note that there are several particular theoretical ways of approaching each of these questions associated to the reproduction of the economy. For example, some Marxists emphasize that relative prices are proportional to the amounts of labor directly and indirectly needed to produce the commodities. Sraffians provide a different approach,

[10] For classical authors the real wage was given at subsistence, for others the rate of profit as determined by the monetary rate of interest as set by the central bank could be taken as the given variable (Sraffa, 1960; Pivetti, 1991).

that is compatible with Marx's views of the working of the economy for some, and not for others. Post Keynesian groups that emphasize the determination of prices according to full cost pricing are also compatible with this general preoccupation about the determination of the social surplus, as in the work of Fred Lee. The same can be said of some Institutionalist traditions that see prices and distribution as part of a historical process that includes prominently the bargaining power of the working class.[11] In other words, several schools of thought are heterodox in the acceptance of the necessity of understanding how the surplus is generated and distributed, even if they have different theories, that are not always compatible among them. Note that the central analytical element in this view is that distribution is exogenous and conflictive.

The second essential proposition that defines heterodoxy is related to the theory of output and employment determination. Heterodox economists believe that output is demand determined. That is, autonomous spending determines the level of activity. There are a few implications to this simple proposition. First, the level of autonomous spending will only generate full employment of productive resources by chance, and unemployment might be a permanent feature of the economic system. Second, it is the level of income that equilibrates savings to investment, and the relative abundance or scarcity of capital does not play a role in the determination of the rate of interest.[12] Additionally, heterodox economists argue that effective demand is valid in the long run.

In sum, heterodox economics suggests that prices reflect, for a given technology, the way classes struggle for higher income shares within the process of reproducing the material conditions for survival, including processes in which there is accumulation, and that output and the process of accumulation are driven by the autonomous, non-capacity generating forces of demand.[13] The ideas that should constitute, and in some reading already do, the core of heterodox economics are the combination of a return to the ideas

[11] Here the more radical work of Thorstein Veblen, more clearly breaking up with marginalism than the work of John R. Commons, seems particularly relevant. John Kenneth Galbraith's work on countervailing power, and on the power of corporations, including in the distributive arena, seems to be exemplar of heterodox economics. See, for example, Galbraith (1956).

[12] Some authors assume that the rate of interest is a monetary phenomenon, determined exogenously by the monetary authority. See, for example, Pivetti (1991).

[13] Some other issues are often seen as central for defining heterodox economics, but are sees as secondary here. Endogenous money is a typical example. It is true that most, if not all, heterodox economists follow some version of endogenous money theory. However, it is clear that even if money is not endogenous, some authors remain or should be seen as heterodox, e.g. in Keynes' *General Theory*, even if he failed in completely breaking with his marginalist past. Also, several mainstream economists have endogenous money, for example, Knut Wicksell in his discussion of the Giro system. The same could be said about true or non-probabilistic uncertainty. It is important, but neither the determination of prices of production or effective demand are directly affected by uncertainty, and several Austrians, hardly heterodox according to the criteria adopted here, are very fond of the idea of uncertainty. The last additional issue that sometimes is used to define heterodoxy is complexity or non-ergodicity, but this also is not fundamental, since complexity can be associated to conventional views of the functioning of the economy. Hayek would be again an example of a mainstream economist that emphasized later in his career issues of complexity. The main difference between heterodox and orthodox are related to causality issues, and they can be reproduced in simple or complex theoretical frameworks. For a discussion of uncertainty and non-ergodicity see Davidson (1991).

of the surplus approach, in particular the notion that distribution is conflictive, and of the notion that the main constraints to the expansion of the economy are political, and connected to the ways in which the state intervenes in the economy. The latter ideas connected with a few heretics that disavowed Say's law early on, but that only gained strong analytical footing with the more radical followers of Keynes at Cambridge.

Both elements emphasize that power depends on objective material conditions, and how real resources can be mobilized to promote accumulation. These ideas derive from an intellectual tradition that emphasizes that social classes are the central unit of analysis, and that the state reflects, to some extent, conflicting class interests, and, hence, that the process of accumulation is about the relative balance of power between classes. In many ways, the work of Joan Robinson, in particular her *The Accumulation of Capital*, is at the center of this idea of heterodoxy (Robinson, 1956).[14] It was a work that blended the old classical political economy tradition of conflictive distribution with a Keynesian preoccupation with demand driven accumulation.

Although her work, and that of Keynes' disciples at Cambridge University, was in many ways heterodox, when compared to the dominant Neoclassical Synthesis of the Cambridge, Massachusetts group around Paul Samuelson, it was acceptable within the broad social consensus of the post-war era. Both groups, for different theoretical reasons, accepted a policy consensus that emphasized the importance of full employment policies at home, and expansion of the welfare state, in the context of the Cold War.

However, the economic success of the period, the so-called Golden Age of Capitalism, created the conditions for the Polanyian double movement, and the reversal of economic policy in the 1970s. The capital debates, which exposed the differences between the two Keynesian groups, and the demise of the social conditions for the Keynesian Consensus, led to the increasing illiberal policies within academia that segregated heterodox groups into their own departments and publications. In that sense, it is in the 1970s that the heterodox intellectual program, whose analytical framework was developed starting with the 1930s crisis, became more explicitly an alternative community, with a much more uncertain future.[15]

Is There a Future for Heterodox Economics?

The definition used here, like any definition leads to some authors being included and some excluded from heterodoxy. And narrow definitions, like Hodgson or this one, might imply that many authors often considered heterodox might be left out. As a group, the heterodoxy is somewhat eclectic, but that is not per se a problem or a weakness. Hodgson

[14] There is a significant debate within heterodox economics between which model of demand-led growth is more appropriate. Some follow the Robinsonian model, in particular the neo-Kaleckians, but other traditions emphasize the non-capacity creating elements of autonomous demand or supermultiplier models. See Blecker and Setterfield (2019) for a discussion of heterodox demand-led growth models.

[15] For a history of heterodox economics see Lee (2011).

seems to think that this eclecticism within heterodoxy contrasts with the orthodoxy that, in turn, would be strong and powerful because of its ability to reach a clear consensus. This is the weakest part of his argument.[16]

Roncaglia (2019) has referred to the current state of the discipline, essentially within the mainstream, as an era of fragmentation. Arguably, since the capital debates, there has been a return to vulgar economics (Vernengo, 2013). In other words, economics has returned to something similar to what dominated between the collapse of Ricardian economics in the 1830s and the rise of marginalism in the 1870s. For Marx that was essentially a discourse that abandoned the notion that distribution was conflictive, defending without analysis a harmonious view of class relations, and that was apologetic of the capitalist system.

Since the capital debates, and the change in the notion of equilibrium that resulted from it,[17] the mainstream has not only been fragmented, but also has used a dual strategy to maintain its dominance. On the one hand, it appeals to the logical consistency of the Arrow-Debreu intertemporal model for analytical rigor, but then, given its sterility and irrelevance for practical purposes, it continues to provide policy advice on the basis of the aggregative model, that has well-known logical problems. There is a disconnect between the core of the marginalist theory, and most subfields, creating fragmentation and confusion. Hence, the notion by Colander et al. (2010) that the distinction between heterodox and orthodox was not worthwhile. Everybody is breaking with the mainstream, or at least the best in the profession, the cutting edge, in their view. One can think of the empirical turn, if there really has been one in the profession, as much as the fragmentation of the mainstream, as a direct result of that dual strategy.

Not only is the mainstream fragmented, but most of the practitioners do not even know that they use marginalist or neoclassical economics. Like Monsieur Jourdain, they speak prose without knowing it. The marginalist or neoclassical mainstream has maintained power in spite of the significant lack of consensus, and the fragmentation of their views. Arguably, the fragmentation has been instrumental in the inertia that allows the mainstream to be dominant. It is their ability and flexibility to defend the *status quo*, like the old vulgar economics, that is, to some extent, the basis for their dominance. Robert Lucas Jr. and Joseph Stiglitz, to cite two winners of the Central Bank of Sweden's Prize in Memory of Alfred Nobel, can share significant influence and power within the profession, even if they are completely at odds in almost everything. Many would actually suggest that Stiglitz is heterodox, but he would not be by Hodgson's or the definition of heterodoxy used in this work, although he certainly is progressive in many of his policy stances, and an ally of heterodox economists in some of these issues often.

[16] In his own words, he identifies the "weaknesses that prevent [heterodoxy from] organizing more effectively and gaining more power, including the lack of consensus on what heterodox economics means, and the lack of a shared *raison d'être*" (Hodgson, 2021: 611).

[17] Garegnani (1976) was the first to note the importance of the change and the abandonment by the mainstream, at least for theoretical purposes, of the long period method of traditional economics.

In that sense, the lack of complete consensus among the heterodoxy on what is the meaning of heterodox economics is normal, and not very different than the mainstream. It is also healthy and part of the process of doing science, but it does reflect, less helpfully, some degree of analytical confusion. In part, this is the result of the fragmentation and confusion of the mainstream, and the fact that many define the heterodoxy as a negation of the mainstream, as Hodgson himself does. Some neoclassical authors are seen as heterodox if they criticize globalization or neoliberal policies, or because it is not evident that they use neoclassical principles. Accepting that there is no consensus within the heterodoxy, like the mainstream, does not undermine its existence or its future.

The idea of a broad tent, as discussed by Lavoie (2022), in this context, is very useful, in particular to understand the future of the group. In many ways, the broad tent is important not because it provides a common understanding about who we are as a group or even to provide a sense of purpose. The broad tent is important because it is part of a strategy of survival that keeps us reproducing heterodox economists, providing the conferences to present our work, the journals to publish, and the graduate programs that are inclusive and pluralistic to form new generations of heterodox economists.

Heterodox economists, meaning the minimalist and positive definition, that know that distribution is conflictive and that demand drives the process of accumulation, are in a reasonably good position by historical standards, and there is little risk that heterodox economists will go extinct any time soon, which was almost the case in other periods of the history of our discipline, when at least the classical tradition had gone dormant. There is no need for a consensus by all participants, and certainly not to gain more power within the profession, which is, ultimately, a chimera. Heterodox economics will remain in the fringes, and there are strong ideological reasons for that, but it will not vanish.

Conclusion

Karl Marx argued in a preface to his *magnus opus*, that political economy could be scientific only as long as the class struggle was latent. Essentially, while the notion that distribution was conflictive was tolerated by those in power.[18] That of course was only possible while the *bourgeoisie* was not in power, or at least it confronted the aristocracy, and not the working class, as its main foe. Vulgar economics, unscientific analysis, was the result of the victory of the *bourgeoisie*. David Ricardo gave way to Frédéric Bastiat and Henry Carey. One can add to Marx's limits to scientific political economy the problem that after John Maynard Keynes and Michal Kalecki economics could only remain scientific while those in power accepted that government demand had the potential

[18] Marx (1867: 19) argued that once the bourgeoisie conquered power "It sounded the knell of scientific bourgeois economy. It was thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not. In place of disinterested enquirers, there were hired prize fighters; in place of genuine scientific research, the bad conscience and the evil intent of apologetic."

to generate full employment and maintain it in the long run. Kalecki (1943) was more explicit about the political element in favor of austerity policies, and his break with marginalism was, like in Joan Robinson's work, more pronounced.

The crisis of capitalism in the interwar period, and the rise of the Soviet system with its alternative to capitalism, provided another period of relatively open and disinterested analysis in political economy. The Keynesian Consensus, in which many radical Keynesians that believed in the importance of conflictive distribution and effective demand in the long run, was the result. The capital debates, with the demonstration that the marginalist notion that markets produce an efficient allocation of resources is not tenable, at least in the sense of full utilization of factors of production, broke the tenuous alliance between more radical disciples of Keynes at Cambridge University, perhaps personified by Joan Robinson, and the mainstream Keynesians in the United States, led by Paul Samuelson and Robert Solow at the Massachusetts Institute of Technology (MIT).

The rise of the Neoliberal Consensus explains the development of heterodox economics. The Keynesian Consensus fell to a great extent because of political decisions in the United States. The Neoliberal Consensus that emerged, put the mainstream Keynesians on the defensive in academia, and in policy circles, and created the conditions for the expelling of dissenting groups. It is only when this alliance broke down that heterodox economists were forced out of the traditional departments, and started to publish in alternative journals.

The alliance between more radical and more conventional Keynesians that was at the core of the Keynesian Consensus era was fundamentally political. This was possible in part because the analytical consequences of the Keynesian Revolution and the limits of marginalism were not fully understood. But the consensus was based on the support for the broadly progressive policies that created the Golden Age of Capitalism. On an analytical level, Paul Samuelson was closer to Milton Friedman than to Joan Robinson or Piero Sraffa. Heterodox economics does best when it maintains its analytical core, which is logically consistent and comprehensive, and engages the more reasonable within the mainstream to discuss policy issues.[19] But it is heterodox economics that keeps the scientific element of political economy alive.

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[19] For example, Summers and Stansbury (2019) suggested that Post Keynesians were correct on thinking about lack of effective demand rather than imperfections. In their words, "we have come to agree with the point long stressed by writers in the post-Keynesian (or, perhaps more accurately, original Keynesian) tradition: the role of particular frictions and rigidities in underpinning economic fluctuations should be de-emphasized relative to a more fundamental lack of aggregate demand."

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