

## **REPENSER L'ÉDUCATION. LANGUES, AFFAIRES ET COMMUNAUTÉS**

### **CONSISTENCY VERSUS INCONSISTENCY IN THE CURRENT ACADEMIC ECONOMIC PARADIGM**

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#### **Abstract:**

The current academic economic paradigm is shaped by the actual economic schools of thoughts and the systems of generating economic knowledge – universities, research institutions, academic publishing actors and business elites. The cumulated contributions of these actors have transformed economics into a mature science whose practical and governance implications were tested by the 2008 world financial crisis. The challenges faced in these times by governments, households and businesses have severely questioned both orthodox and non orthodox economic wisdom and the legitimacy of the economist as a professional. Irrespective of their economic orientation, most economists have agreed that the models of socio-economic development should be revisited, with a high need of a focus on the moral and ethical standards of the human, economic and political actions. The purpose of this paper is to analyse some of the major inconsistencies that the current academic economic paradigm is perpetuating through its systems of generating economic knowledge, mainly universities and research institutions. From the methodological point of view this paper uses a qualitative analysis, based on a conceptual and highly explorative approach.

#### **Key words:**

Economic paradigm, higher education, school of thought, financial crisis

#### **Introduction**

The current academic economic paradigm is shaped by the actual economic schools of thoughts and the systems of generating economic knowledge – universities, research institutions, academic publishing actors, business elites. The cumulated contributions of these actors have transformed economics into a mature science. Since the appearance in 1776 of Adam Smith's *Wealth of nations*, the economic science has gone through multiple metamorphoses, developing its

theories and research methodologies. But the practical and governance implications of economic theories have been severely tested by the 2008 world financial crisis. The same has happened with other major world recessions, but in 2008 the magnitude of the crisis has put light on several inconsistencies of economics more than in other cases. In this period, the challenges faced by governments, households and businesses have questioned both orthodox and non orthodox economic wisdom. Also, the legitimacy of the economist as a professional was questioned, due to the obvious difficulties in both forecasting, managing and solving economic problems. Nor orthodox and heterodox theories were able to offer viable economic governance solutions, despite the fact that both orientations are relatively sophisticated in their theoretical framework. This theoretical framework considers that orthodox generally refers to what historians of economic thought have classified as the most recent dominant school of thought”, meanwhile heterodox “would be (...) defined by its divergence from at least some of the main orthodox ideas” (Dequech, 2007, p. 294). In practice, there were many efforts to define the boundaries of orthodox versus heterodox approaches in economics. Despite this separation, most economists have agreed that the models of socio-economic development should be revisited, irrespective of their economic orientation. The common consensus is that these models need a significant focus on the moral and ethical standards of the human, economic and political actions.

In this context, the purpose of this paper is to analyse some of the major inconsistencies that the current academic economic paradigm is perpetuating through its systems of generating economic knowledge, mainly education through universities and the academic system. Given the vast coverage of such an ambitious research purpose, we will concentrate our efforts on the following lines of research:

- Consistency versus inconsistency in the responses of the economic schools of thoughts to the current economic crisis;
- The changing role of the higher education institutions in the dynamic and complex systems of generating economic knowledge;
- Conclusions.

From the methodological point of view, this paper is a conceptual and highly explorative one, based exclusively on desk research and on an innovative and original approach.

Consistency versus inconsistency in the responses of the economic schools of thoughts to the current economic crisis

The 2008 financial crisis and the systemic failure of the “casino capitalism” (Polin, 2008) have put light on several problematic facets of the mainstream economic science. Several economic hypotheses, some of them already much debated by heterodox approaches, have shown their limitations in both explaining and offering solutions to the economic crisis. This has made that both the

economic profession and economic science were accused of a severe incapacity to contribute to the world's welfare.

In this section, we aim to better understand the response of the different economic schools of thought to the current economic crisis. Through this analysis we will investigate some of the consistencies and inconsistencies of the current economic paradigm.

We begin this exploration with the analysis of the differences between the orthodox and the heterodox economics, following Voinea (2009). Usually, we understand by orthodox economics the major concepts crystalized in (neo) classical approaches, orthodox theories being in their essence a repetition of neoclassical ones. These differences are key for the further understanding of different responses that these two main scientific orientations have had in relation to the economic crisis. The differences are presented in the table below:

Table 1 Differences between neoclassical economy and heterodox economy

Neoclassical economy	Heterodox economy
<ul style="list-style-type: none"> <li>• The markets and the economy are normally in equilibrium</li> </ul>	<ul style="list-style-type: none"> <li>• The markets and the economy are usually in disequilibrium</li> </ul>
<ul style="list-style-type: none"> <li>• The economic system is self-regulating and the crisis are determined by external factors</li> </ul>	<ul style="list-style-type: none"> <li>• The economic crisis are part of the economic system and a result of its nature</li> </ul>
<ul style="list-style-type: none"> <li>• Economic agents are rational and therefore their behaviour can be anticipated; this supposes a certain degree of certainty</li> </ul>	<ul style="list-style-type: none"> <li>• Economic agents are not always rational and therefore their behaviour cannot always be anticipated; this supposes a high degree of uncertainty</li> </ul>
<ul style="list-style-type: none"> <li>• Money is neutral</li> </ul>	<ul style="list-style-type: none"> <li>• Money is not neutral</li> </ul>
<ul style="list-style-type: none"> <li>• Inflation is monetary mass in excess</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation is a complex phenomenon, influenced by a multitude of factors, like the profit rate, public investment, income distribution, etc.</li> </ul>
<ul style="list-style-type: none"> <li>• There is an inverse relation between inflation and unemployment (the Philips curve)</li> </ul>	<ul style="list-style-type: none"> <li>• The Philips curve is not valid</li> </ul>

Source: after Voinea (2009), *The end of the illusion economy*, Publica Publishing House, Bucharest, Romania, p. 21

Compared to orthodox methodology, heterodox economics as an intellectual category does not necessarily have a shared methodology or theoretical or political

features accepted by all the proponents of heterodoxy (Dequech, 2007, p. 295). Despite the high heterogeneity of economic schools considered to be heterodox, there are a series of commonly accepted assumptions that these theories share. These assumptions allow specialists to treat them together in conceptual works. Moreover, they are united “by its open-system ontology (...) and/or by their reliance on a pluralist methodology” (Dow, 2008). Most of the intersection points of heterodox approaches have in fact originated in the critical view of economics fundamentals.

Starting from these critiques, the orthodox and heterodox approaches have developed different perspectives on the economic crisis. These perspectives are mainly different in what concerns the nature of the causes of the depressions.

While orthodoxy considers that crises are caused by external factors, the heterodox approach denies this approach. The basic assumptions of each orientation explain this difference. Traditional economics grounds its view on the perspective of the equilibrium of markets, in which demand and supply always intersect, at correct market prices. In this view, the markets and the economy are normally in equilibrium. This explains why shocks can only be provoked by exogenous factors, like industrial problems, trade deficits, contagion, supply shock, with money and uncertainty not playing a key role (Muñoz, 2011).

An opposite view is expressed by heterodoxy. According to Minsky, economic crises are part of the nature of the capitalist economies, in which shocks are not random or exogenous, but originate in the system, more concretely in the financial sector. The instability that further leads to the crisis is thus mostly generated by the behaviour of the financial markets, to which other factors are added, like the price of the assets, profits or the government (Muñoz, 2011). According to Minsky, during the investment process, production becomes more and more intensive in capital, which increases its price and makes producers to incur in new debts. Minsky shows that during a boom, market prices become held with increasing confidence, encouraging more leveraging, to the point that the financial system becomes increasingly fragile and vulnerable to expectations (Dow, 2008). Comparatively, profits are not taken into consideration by orthodox models, because they operate on the hypothesis of perfect competition, where profits are zero when markets are in equilibrium.

In heterodox theories, uncertainty has a key role in explaining the instability of the economic system. Besides factors such as financial markets, profits and governments, uncertainty also originates in the behaviour of economic agents. In the heterodox perspective, these agents are not always and completely rational in their decision making process, compared with the basic assumption of orthodoxy that agents behave based on rationality. As Voinea (2009) expresses it, economic agents follow different types of motivation, such as moral values, corruption, the illusion of money or others' experiences (Voinea, 2009, pp. 27), their behaviour being much more unpredictable than standard economic models have assumed.

The orthodox approach to economic crisis was built on the hypothesis presented above. A series of economic models have resulted from these hypothesis, like Krugman's (1979), that explains crises as the product of budget deficits, or Obstfeld's (1994), that believes that crises are the result of the tensions between fixed exchange rates and expansionary monetary policy. Other models belong to Kaminsky and Reinhart (1998), that indicate the banking system and moral hazard as main causes of the crisis, or Tornell (1999) and Krugman (1999), which focus on the role of companies' balance sheets, capital flows, but also real sector factors.

By comparisons, heterodox approaches have proposed less economic models that explain economic recessions. One important reason is that the concept of economic model itself is contested by heterodox economists. The Austrian approach is probably one of the most systematized in its methodology and hypothesis, with illustrious representatives like Böhm-Bawerk, Hayek (Nobel prize winner, 1997) or Mises. In what concerns contributions toward economic methodology, Mises constantly refused experience as a valid methodological instrument in economics arguing that "to expect economics to provide scientific predictions on a par with those offered by the natural sciences betrays a gross ignorance of the world in which we live and of human nature in general" (Huerta de Soto, pp.73). Other heterodox schools of thoughts were less prolific in generating macro and applied proposals for the organization on the economic activity, offering their contributions especially in the arena of theoretical sophisticated arguments. The lack of valid and applicable proposals for economic policies that could be followed by world governments to increase welfare is clearly a weakness of the heterodox approaches. This inability has led to a separation of the theory side from the practical, economic governance one, that is visible starting from the mere analysis of economics curricula.

Mainstream economics has helped the science to develop and become a respected profession, but it proved partially helpless to prevent or address economic crisis or issues such as world poverty. Heterodox economics has opened the boundaries of economic science to a large series of social topics, thus making economics more inclusive and complex, but also more confusing and difficult to manage. What is important is that irrespective of their economic orientation, most economists have agreed in the last years that the models of socio-economic development should be revisited, with a high need of a focus on the moral and ethical standards of the human, economic and political actions. From the point of view of this paper, academic education should keep the pace with these intricate evolutions of economic science, as it is the main factor that generates and perpetuates economic knowledge for its stakeholders: students, citizens, governments, businesses. In this sense, we will scrutinize in detail what type of economic knowledge is generally produced and disseminated in economic higher education, in the following section of the paper.

The changing role of higher education institutions in the dynamic and complex systems of generating economic knowledge

This section of the paper focuses on how specialized higher education institutions contribute to knowledge generation in the economics and business field. We study the “mainstream” content of the academic economic curricula, with the aim to observe how academic knowledge contributes to the formation of the larger corpus of economic knowledge, applied in day to day life, but also governmental and business decision making.

We start our investigation from the significant criticism that the academic environment is perpetuating an economic science with serious limitations, mostly based on the orthodox wisdom commented in the previous section of the paper. For example, some economists, like Reardon (2012) or Coyle (2013), point out that students of the 21st century are receiving much the same instruction about how firms set prices as did their counterparts at the end of the 19th century, despite significant research in behavioural economics, in institutional or development economics. More concretely, the main questions that we aim to answer in this section are:

- What type of economic knowledge and competences do economics universities transmit and share to their stakeholders – students, teachers, business environment and governmental factors?
- How adequate is this type of knowledge to the actual economic context?

In order to answer these questions, we start by admitting that there are significant differences between the contemporary university and the medieval university or the higher education institutions of the 18th, 19th and even 20th century. This is why we expect that the role of the university in knowledge generation has changed. Basically, the evolution of the university as a prominent element of the higher education system shows its adaptive responses to the social, scientific and economic evolutions. In the 18th century, due to the contributions of, among others, Jean Jacques Rousseau, the scientific vocation of education was established. In the 19th century, the existentialist school of thought proposed an education in the direct benefit of the individual and society. On the overall, in Europe, until the first half of the 20th century, education was still the expression of social segregation based on the identification with a certain social class. At the end of the 20th century, the massification of higher education takes places, understanding by this the rapid and generalized growth of the higher education participation rate. This has contributed to the transformation of higher education into a “knowledge industry”. Its role in the knowledge society and economy is central. Many scholars consider in fact that education is currently turning back to its real vocation, that of being a knowledge institution (Giarini, Malița, 2005, p. 216

50). Moreover, the university is changing from a national actor into an internationalized, globalized one, being both the object of globalization and its agent (Marginson, 2010). Higher education institutions are becoming driving forces of globalization, due to the diversification of their funding, virtual or cross border operations or cross-border accreditation. These processes have taken place in the context of the amazing technical progress. This has contributed also to the emergence of sophisticated and integrated economic and business structures that needed organization and planning for achieving high performance rates in a fierce competition. The capitalist and competition philosophy has disseminated in all societal strata and agents, which among other major effects, has raised the importance of economic and business education. Economics faculties and business schools have developed as an answer to these environmental changes, transforming themselves according to societal and cultural needs.

During these transformations, numerous events, especially in the business and economic arena, have questioned the adequacy of the academic corpus of economic knowledge and competences to current challenges our society faces. Recently, the 2008 financial crisis has put light on a series of weaknesses of the current economic system. The challenges faced by governments, households and businesses have severely questioned both orthodox and non-orthodox economic wisdom and even the legitimacy of economists as professionals. In order to assess the adequacy of the academic corpus of economic knowledge and competences to the current challenges our society faces, we firstly have to identify the type of economic knowledge and competences these institutions transmit to and share with their stakeholders: students, teachers, researchers, governmental factors and business persons.

Undoubtedly, the current “mainstream” of academic economic knowledge is based mostly on the neoclassical paradigm, that has become the lingua franca of economics and that lays the foundation of worldwide economic policies (Reardon, 2012). As we have seen previously, the neoclassical paradigms put markets in the centre of the economic system and aim to predict individualistic choice behaviour of economic agents, in relation to the markets. As Reardon (2012) shows, current economic wisdom takes the existing capitalist system for granted, being concerned more with increasing its efficiency and less with the fact that economic problems are inevitably social and political problems as well. Physicist Fritjof Capra (2004) considers that by avoiding social problems economic theories closely reflect the significant incapacity of economists to adopt an ecological perspective. Capra (2004) believes that the orthodox economic conceptual framework is inadequate for the incorporation of social and ecological costs. Also, he suggests that another main limitation of the economic paradigm is the obsession of current economic

systems (both market systems and command economies) for economic and technological growth. Teaching and learning within the paradigm of undifferentiated economic growth had effects on world economy, but also lead to important cultural, social and environmental impacts.

Methodologically, economics was mostly influenced by logical positivism, based on testable statements, deductive logic, empirical testing and causal modelling (Dow, 2009), through mathematical formalism. In economics, this mathematical formalism was seen an implicit condition to scientific rigour (Krugman, 1998). According to Arnsperger, economics centred on “causal knowledge” is supported by the fact that it cannot be rejected when tested empirically (Ion, 2011). But as empirical testing failed several real world economic problems, these limitations have started to be addressed, especially by heterodox schools of thought. These have shown that mathematics cannot always generate an accurate translation of verbal arguments (Chick, Dow, 2005; Duran, 2007). Austrian economists were relatively the most vocal in this direction, building their arguments on the continuously changing nature of markets and individuals that cannot be expressed by a mathematical model. Also behavioural economists underline knowledge limitations of individual decision-makers, which many times have resulted in high uncertainty. This uncertainty is not consistent with the formal expression of individual behaviour (Dow, 2009). Moreover Dow (2008) shows that while „official” orthodox economics conforms to formalism for formulating theory and policies, the „unofficial” approach is based on distinct ranges of methods and arguments. These type of arguments have made heterodox economists to converge to the idea that „social reality, in other words, is of a nature that is significantly at variance with the closed systems of isolated atoms that would guarantee the conditions of mathematical deductivist modelling”, as a main factor of failure of modern economics (Lawson, 2009).

As we have already mentioned, one of the events that has questioned standard economic wisdom is the current economic crisis. In the opinion of many scholars, the 2008 crisis is actually a large intellectual failure (Coyle, 2012), an intellectual failure that was probably born also in the academic environment. It is therefore logical to raise questions as the following: “why and how did the academic environment contribute to this intellectual failure? What are the taught economic principles and theories that have proved erroneous or inapplicable?”

Clearly, there is a serious gap between real-world problems and academic/textbook economics (Coyle, 2013). The divergence between the academic corpus of knowledge and socio-economic real world problems has actually drawn the attention of both researches and university representatives and governmental officials. Interesting conclusions regarding the relation between the

economics and business curricula and the crisis were reached at a recent conference supported by the Government Economic Service, the Bank of England and the Royal Economic Society, held at the Bank of England in February 2012. During the conference, it was underlined that despite progresses made by the economic science, in fields like auction theory, or development economics, we have been operating with serious limitations of the academic economic paradigm, in the last 50 years. Among these, a problematic separation of the macroeconomics curriculum with finance and development economics was discussed. The main reason for this separation is rooted, again, in the basic premises of mainstream economics and in this case, the generalized belief based in the neoliberal paradigm. The neoliberal paradigm assumes an intrinsic well-functioning of markets, which makes that leverage or the instability issues to be usually underestimated, given the fact that the market will always and automatically contribute to a final equilibrium. Also, a better understanding of the institutional approach or more openness to network models and complexity science were signalled during this conference as important needs of the reform of the economic academic curricula.

In what concerns the competences that economic and business universities offer, the environmental conditions to which universities have to adapt are paradoxical. On one hand, there is a decline in current employment projections, with more automation processes replacing labour, including skilled one. On the other hand, the level of specialized skills required by the labour market is increasing and transforming. The transformation is from low to high qualification occupations, which consequently affects competences offered by learning programmes. Also, the uncertainties of the external environment have made soft, flexible and adaptive skills, like critical thinking and problem solving, equally important as hard skills. In Miron's words (2008), processes of job destruction and job creation have been registered, as well as a massive orientation of youths towards higher education in parallel with the process of brain circulation.

These trends in the labour and competences market are putting pressure on universities, due to the fact that they have to be simultaneously mass generators of education but also producers and disseminators of highly specialized knowledge. Finding the right balance, in the context of multiple environmental challenges, like globalization, contamination or the brain drain processes, is not an easy task for university leaders. The effects of such a challenge were a cause of the disequilibria of the labour markets, to which involuntarily the universities have contributed to. For their corrections, a more visionary and flexible university leadership is probably needed, together with the reformation of academic curricula, in the sense of making them closer to real world issues.

### **Conclusions**

Currently, the type of economic knowledge and competences that economics universities transmit and share to their stakeholders are biased by the main limitations of the economic science. Their perpetuation in teaching and learning has already contributed to the creation of a vicious cycle, in which debatable economic hypothesis and reductionist theories have built the current economic wisdom.

This article is, obviously, a limited space for a more detailed discussion, its aim being solely to signal that the current academic curricula is following too closely the patterns of a problematic development of the economic science.

The key message we wish to underline is that the severe dis-functionalities with which economics operate have made universities partially unable to offer solutions to the current economic and social challenges. We believe that this distorts the role that universities are able to assume in the world economy and society, that is, to contribute to welfare and progress.

The university should be more a “recycling” and renewing space of knowledge creation and not a space dedicated to the repetition and dissemination of the vulnerabilities of the economic paradigm. This is why, probably, more pluralism in the academic curricula and teaching is needed. In this sense, Freeman (2010) argues for “assertive pluralism” in the teaching of economics, in order to offer a variety of policy options to economic and social problems. Also, the „Triple Helix” model (Miron, 2008), that mainly promotes the partnership among consolidated structures (government – businesses – academia), could contribute to a wiser approach of universities regarding their own role in the economy and society.

On the overall, inconsistencies in the economic science have to enter an era of reformation. Both orthodox and heterodox economists have already established that the current models and patterns of socio-economic development should be reformed, with a strong emphasis on moral and ethical standards of the human, economic and political actions. From the point of view of this paper, academic education should keep the pace with the intricate evolutions of the economic science, as it is the main factor that generates and perpetuates economic knowledge for its stakeholders: students, citizens, governments and businesses.

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