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THE EVOLUTION OF ECONOMIC THEORY DURING THE TWENTIETH CENTURY

The paper deals with the development of economic theory during the XX century. It aims to present some of the main steps and achievements of economic thought in the last century. Sharing the vision, that pluralism is the principal characteristics of the development of the XX century economic theory, the author successively analyses the orthodox and heterodox schools of thought. The focus is on the neoclassical school – a leading economic stream (the so-called Mainstream) in the XX century and undoubtedly so at the end of the century. The new accomplishments in methodology and theory (Microeconomics, Macroeconomics) within the boundaries of neoclassicism are being explored. From the heterodox schools of thought the author directs attention towards two of them – Institutionalism and Marxism. A number of questions in respect to Marxism and its destiny after the collapse of socialism are being raised. In the conclusion the author points out, that towards the end of the century there is a clear trend towards greater interaction and exchange of ideas between the main theoretical schools (orthodox, heterodox), which trend will influence the development of economic theory in the future.

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The end of the XX century that happened not so long ago, gives enough reason to people to look back and to try and evaluate past events, processes as well as the development of science and arts. The economic theory makes no exception in this respect. In spite of the fact that in the economic education there is lately a trend to underestimate the history of economic thought[1], in science there is a continuous interest towards this research area. During the last decades, like in previous periods, with no less efforts and attention the analyses are being made of different schools of thought, of different theories or of the contributions of individual scientists. Towards the end of the XX century these efforts intensified and have been oriented towards broader assessments and generalizations. This paper joins the above direction of scientific interest. Its objective is to investigate and present the main steps and accomplishments in the evolution of economic thought during the XX century. The research objective thus stated encounters a serious restriction: the analysis of the development of economic ideas in the XX century is not only extremely sophisticated, but is also a profound task, whose serious elaboration exceeds far the volume of an article. That calls for an important stipulation to be made at the very beginning: the research, that follows will present the history of economic thought during the last century in a brief, more or less

[1] This trend can clearly be identified in the Bulgarian academic education, but unfortunately it is characteristic not only for Bulgaria. See for example *Blaug, M.* No History of Ideas, Please, We're Economists. - Journal of Economic Perspectives, Winter 2000, Vol. 15, N 1, p. 145-164.

schematic form, with no claim for comprehensiveness, but in a way which will allow drawing the overall picture.

The most characteristic feature of the XX century in the field of economic theory is the variety of ideas or pluralism – e.g. the co-existence of different theoretical schools and concepts. During the XX century theories have been developed about the market-based economy and theories about the centrally-planned economy. Within the boundaries of the theories about the market-based economy, a number of scientific streams of economic thought are in rivalry. From the point of view of contemporary realities, looking back to the past, there is no doubt that the most influential school of thought during the last century is the neoclassical school. The formation of the school was completed at the beginning of the century. During the next decades it has been approved as the leading economic school – the so-called "Mainstream". Towards the end of the XX century the neoclassical school has a stronger position than ever. As a result of the collapse of the socialist system the ideas, principles and approaches of the neoclassical school dominate in modern economic thinking and no doubt will exercise the strongest influence on the development of economic ideas in the near future. This justifies the analysis of the evolution of economic thought during the XX century to start with the development of neoclassicism.

The Neoclassical School

The neoclassical school starts to develop during the last decades of the XIX century and at the beginning of the XX century the process is almost completed. The central place belongs to A. Marshall and his book "The Principles of economics" (1890) in which he lays down the foundations of the modern price theory. At the end of the XIX – the beginning of the XX century the theory of the marginal factor productivity also develops and that allows the analysis of product markets and of factor markets to be carried out on a common methodological basis. If we add to this the theory of general market equilibrium (developed during the second half of the XIX century), then we shall get an idea about the "theoretical legacy" upon which the economic theory of the XX century starts to develop and to build upon.

At the core of the new theoretical accomplishments of this period is, undoubtedly, Marshall's theory. It integrates the main theoretical developments within the boundaries of the neoclassical school and is the summit of economic thought at that time. Because of this in an article, published in 2000 and devoted to the valuation of the evolution of economic theory during the XX century, W. Baumol applies an interesting approach: he uses Marshall as a criterion, with which he compares the XX century economic thought. The contributions of the century, according to Baumol relate to all new elements of the theory and methodology that can not be found in Marshall but are present in modern economic analysis.[2]

[2] *Baumol, W*. What Marshall Didn't Know: On the Twentieth Century's Contributions to Economics. - Quarterly Journal of Economics, February 2000, Issue 1, p. 1-44.

On the background of the significant theoretical achievements at the end of the XIX – the beginning of the XX century, the neoclassical school starts to develop as the leading school of thought and it remains so until the end of the XX century. Parallel to this, the final replacement of the term “Political economy” with the term “Economics” takes place.

Any attempt to identify the main contributions of the XX century to the development of neoclassicism will result in the trivial recognition, that two are the main achievements in the field: the extension of Microeconomic theory with the theory of imperfect competition, and the appearance of modern Macroeconomic analysis as a new and additional part of the theory of the market economy (Economics).

Behind the above generalization remains an enormous unrevealed wealth of scientific discoveries. During the last century the economic theory has made a remarkable progress. Plenty of new ideas, concepts and theories have been developed. Considerable improvement of methodology has been achieved. Dozens of economists make their personal contributions to the development of economic thought. For a science, which has a history several centuries old, one hundred years is a long period. Therefore a much generalized assessment of the achievements of the XX century economic thought is highly insufficient. The history of economic thought of the XX century requires and deserves a careful and detailed analysis, which to reveal if not all, at least the main moments of a productive evolution.

The contributions of the XX century to the development of Microeconomics

At the time when the neoclassical theory has appeared and was established, it deals with problems, which from the point of view of contemporary vision we refer to Microeconomics, e.g. it appears as Microeconomics. Until Keynesian Macroeconomics starts to develop, the entire theory of the market economy is concentrated within the field of Microeconomics.. Here the methodology of neoclassicism has been formed, developed and improved. Until now Microeconomic theory continues to play the role of a peculiar fundament, within which new ideas, concepts and analytical instruments for the study of the market economy are generated.

The progress of knowledge in Microeconomics (and in Economics as a whole) wouldn’t have been possible without the improvement of the *method* of the neoclassical school. During the XX century it has been done in one main direction – the penetration of mathematical methods in economic research, the extension of their use and their continuous improvement. In this connection W. Baumol points out “Clearly, the most radical change is the victory of mathematical economics”.[3] The above change is so important, that many economists, discussing the

[3] *Baumol, W.* Op. cit., p. 23.

mathematization/formalization of economic analysis, refer to it as a “formalist revolution”.

The wide use of mathematical methods in economic research contributes for a more precise and systematic exposition of the fundamental theoretical concepts and for the strengthened internal logic of the theoretical models. It also facilitates the test of theory on the basis of statistical data. Like in other cases, together with the benefits there exist some risks. The main danger in the case relates to the possibility of splitting off the theory from the practical problems and from the necessities of real-world life.

The attempt to valuate the progress of knowledge in the field of Microeconomics during the past century comes across an undisputable and interesting fact: Microeconomic theory develops considerably during the period discussed, but to get the notion of this from the popular and well familiar textbooks in Introductory Microeconomics, is not possible. On the contrary: these textbooks continued to be based on the Marshall’s economics and therefore if we presume, that they reflect the level of contemporary theoretical knowledge, then it’s easy to come to a conclusion that in the field of Microeconomics the new achievements are in fact very little. Such conclusion would be incorrect and misleading. Economic knowledge in the field of Microeconomics has far developed for one hundred years. The theory has expanded in every part and the level of knowledge now far exceeds that from the beginning of the XX century. But for one reason or another this development remains until present out of the textbooks. For an illustration of the above any part of Microeconomic theory can be used – the author’s preference is to the consumer choice theory.

As it is well known, in the neoclassical analysis the consumer choice theory plays the role of a theory of demand, whose main aim is to justify the Law of demand. From the dawn of the development of this theory the thesis, that when price falls, the quantity demanded increases, is based on the presumption about utility maximization. The early marginalists and A. Marshall accept that the utility the consumer derives from the consumption of a commodity depends exclusively on its quantity. Marshall’s theory presumes also that utility can be measured and that the Law of diminishing marginal utility is valid.[4]

The XX century begins with a broad discussion about the validity of the Law of demand. Some economists question the prerequisites of the analysis arguing that either utility could not be measured, or that the hypothesis about the diminishing marginal utility is not true. Other economists, for example Giffen, believe that empirical facts reject the Law of demand. To this other opponents add, that the demand theory is based on inadequate, hedonistic psychology.[5] The development of the theory of

[4] A system of knowledge, which M. Blaug identifies as “introspective cardinalism”. (*Blaug, M.* The Methodology of Economics (Or How Economists Explain). Cambridge University Press, 1980, p. 162).

[5] *Landreth, H. and D. Colander*. History of Economic Theory, 2nd ed. Boston, Houghton Mifflin Company, 1989, p. 327.

demand during the XX century is to a great extent subjected to the efforts of economists to find out the answers to the above questions.

In 1944 J. von Neumann and O. Morgenstern publish “Game theory and Economic behavior”, which seems to be giving a chance to the cardinal utility theory. To use game theory for the deduction of utility the authors propose the so-called “expected utility”. In order to prove the existence of a measurable expected utility, Neumann and Morgenstern formulate five axioms on the basis of which a utility index is derived. In its mathematical treatment the utility receives somewhat different meaning, compared to that in economic theory: it is used to present consumer preferences, while in neoclassical theory it defines (or precedes) them.

The discrepancy in the understanding of utility in the cardinal theory and in the game theory imposes limitations on the application of game theory for the justification of the possibility for defining directly the utility and for the existence of a measurable utility function.

The main road for the development of the demand theory has turned out to be different. It is associated with the transition from the cardinal to the ordinal utility theory. In 1934 J. Hicks and R. Allen in the famous article “A reconsideration of the Theory of Value” make use of the indifference curves (a new instrument, first used by Edgeworth and later by Pareto and Fisher) to present a theory of consumer behavior, based on the ordinal comparisons of consumer’s satisfaction. The new approach allows to distinguish between the income effect and the substitution effect (thus to explain the “Giffen goods”). In their paper Hicks and Allen refer to a publication of E. Slutsky, which deals with similar problems, but until that moment have remained unnoticed. Today this line of analysis is known in Economics as Slutsky-Hicks-Allen analysis.

The next step in the development of consumer choice theory withdraws further theoretical analysis from the assumptions about the psychological motivation of the individual and from the utility concept. It is stimulated by the criticism of psychology in respect to the hedonistic psychological preconditions of the existing theory of demand. As a result the “revealed preference theory” develops, elaborated with the chief contribution of P. Samuelson. The basic assumption of this theory for the deduction of the downward sloping demand curve is that consumer preferences are transitive. P. Samuelson’s approach to justify the Law of demand (or as Samuelson himself prefers to call it “the fundamental theorem of the consumer theory”) incorporates all familiar applications of the indifference curve theory, but additionally has the privilege to draw out consumer preferences from their revealed behavior, not vise versa.

The analysis with the indifference curves and the theory of revealed preferences are today the standard approaches in the theory of demand. The indifference curves themselves prove to be a valuable analytical instrument, used widely beyond the boundaries of the consumer choice theory: today they are used in theoretical and applied fields like marketing, management, fiscal policy, theory of international trade etc.

The consumer choice theory continues to develop at present. One of the latest directions is the introduction of risk analysis. This allows the research to focus on consumer choice under uncertainty. The models that develop are based on the concept about the expected utility (introduced, as pointed out above, by Neumann and Morgenstern and expanded in 1953 by J. Savage). The initial hypothesis is that under conditions of uncertainty, the consumers aim at maximizing the expected utility.[6]

Another promising direction of the consumer choice theory at present is the "characteristic analysis" of K. Lancaster. According to him, the preferences of consumers are for characteristics, not for goods. That's why instead of using goods as arguments in the utility function, Lancaster uses their characteristics. Under Lancaster's approach marginal solutions are impossible and the process of decision-making is presented by linear programming.[7]

If we try to summarize we can conclude that during the XX century on the field of demand theory there takes place gradual move away from its subjective psychological foundations. The modern demand theory (especially in the form of the revealed preference theory) is defined by some economists as a theory of demand without a consumer choice theory. The process of this transformation becomes possible only as a result of the increasing formalization of demand theory. The level of knowledge in this field is at present quite different from the theoretical ideas of A. Marshall at the beginning of the XX century. It is also very much different from the way this theory continues to be taught at Universities by presenting traditionally one after the other the cardinal and the ordinal consumer choice theories.

From the point of view of the contributions of the XX century to the development of economic ideas, to the development of Microeconomics in particular, greatest attention deserves the theory of imperfect competition. Its roots are also in the XIX century and are associated with the first attempts to analyze the monopoly. Cournot's book from 1838 includes two chapters, devoted to the monopoly research. With the same problem deals a paper by Edgeworth from 1897. In "The Principles of Economics" Marshall pays attention too to the analysis of monopoly. We should join Baumol here who states, that there can hardly be found an author in the XIX century, who wrote on the monopoly and who was not aware that there exist numerous intermediate market situations between the perfect competition and the pure monopoly. A proof of this statement is the early (XIX century) duopoly models. But the real theory in respect to these intermediate situations – the elaboration of the models of the monopolistic competition and of the oligopoly – belongs to the XX century.

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6 For more detail see *Darnell, A*. Decision-making under uncertainty. - In: Maloney, J. (ed.). What's New in Economics. Manchester University Press, 1992, p. 1-39.

7 *Landreth, H. and D. Colander*. Op. cit., p. 331.

The theoretical analysis of Marshall, as is well known, accepts the existence of perfect competition. During the 1920s, a criticism arises in respect to this assumption. J. Viner (1921) for example, explains the significance of the heterogeneity of products for the process of price determination. P. Sraffa (1926) argues that the only way to reconcile stable equilibrium with economies of scale is by abandoning the presumption of perfect competition. This criticism leads directly to the contributions of J. Viner, J. Robinson and E. Chamberlin to Microeconomics.

Viner helps bring together theory and facts by making a distinction between the short and the long run. In his model the capital is accepted as a fixed production factor in the short run and it remains so ever after. The main contribution of J. Robinson ("The Economics of Imperfect Competition", 1933) is the use of the MR curve. Her model of a firm, maximizing profits by equalizing MR and MC, for a long time already is a standard model in Economics.

The Chamberlin's book "The Theory of Monopolistic Competition" (1933) has far more important consequences. Its main objective is to wholly restructure the analysis of the market. The subtitle of the book is "A Re-orientation of the Theory of Value" and it reflects Chamberlin's belief that the book presents an entirely new look at the economic system. According to the author, the real world challenges the traditional concept in Economics, according to which competition and monopoly are alternatives and the prices (of individual goods) can be explained in respect either to the former, or to the latter.

Chamberlin specifies that when he examines the working of the market system he finds out that what is available is the so-called "monopolistic competition". By monopolistic competition he understands a market structure, under which competition is combined with elements of a monopoly. Opposite to monopolistic competition (an economic expression, introduced by Chamberlin himself) is the so-called "pure competition", which is the starting point of his entire investigation. Chamberlin deliberately chooses the term "pure", not "perfect" competition and by "pure competition" he understands competition, that lacks elements of a monopoly (in this sense – "pure"). For the pure competition to exist, according to Chamberlin, two prerequisites are necessary: large number of buyers and sellers and homogeneity of the product. It follows, that violation of the conditions for a pure competition can come from two directions; if the number of buyers/sellers is limited, or in case of differentiation of production. These two cases which share a common feature and it is the combination of forces of competition with the forces of a monopoly, Chamberlin unites into the category "monopolistic competition". In his book he deals primarily with the latter case. He analyses in detail the market and pricing under conditions of a differentiation of production; makes a distinction between production costs and selling costs; appreciates the role of advertising; deducts the hypothesis about the "excess capacity", etc.[8]

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[8] *Чемберлин, Э.* Теория монополистичной конкуренции. Изд. Иностранной литературь, Moskow, 1959.

Chamberlin's theory is rich in ideas, it gives the starting point of a plenty of new directions of analysis. It is because of this that many economists in the 1930-40s expect that the book will have a revolutionary influence over Economics. But this did not happen. One of the most vigorously discussed themes in the history of the XX century economic thought is the failed "revolution" of the monopolistic competition. The last century witnessed the rise, decline and again rise of the theory of the monopolistic competition.

What reasons lie behind these developments?

Chamberlin's model is criticized from different points of view. On the one hand, it is difficult for formalization. In a paper R. Lipsey writes that towards the 1960s there existed a consensus among the economists, that Chamberlin's model is theoretically flawed and empirically empty. It is theoretically flawed because is based on the famous Chamberlin's symmetry assumption (all versions of a differentiated product are equally good substitutes for each other so that a new product would take demand away from all existing variants in equal proportion). It is considered to be empirically empty, because the great variety of real differentiated commodities is produced by oligopolistic industries, where a small number of firms produce a large number of differentiated products.[9] It is worth noting however, that Chamberlin was aware of the existence of such kind of industries, he makes comments on the problems that arise from firms' interdependence (in chapter 3 of his book). He has tried to solve analytically the above problems, but was unable to do that adequately.

The main reason for the failed "revolution" of the monopolistic competition is however different. Since the 1930s the rapid formalization of economic theory begins. The introduction in economic analysis of more sophisticated and powerful mathematical instruments allows the modeling of more complex market relations – the economic theory begins to make a transition from Marshall's theory of the partial equilibrium to the theory of L. Walras of general market equilibrium as a conceptual framework for the entire theory of the market economy. Today Walras' model plays such role, not Marshall's as it was in the beginning of the XX century. The neoclassical theory starts to make that transition in the 1930-1940s, adopting the analysis of Walras and disregarding the new discoveries of Chamberlin, which at that time seem no less important than those of Keynes.

The "revolution" of the monopolistic competition did not take place, but the questions it ask, remain. As time passes, the perfect competition model shows various limitations. A necessity arises of a more realistic interpretation of the market. Economists rediscover Chamberlin and turn again to his model with its early assumptions. New investigations appear. Finally the dominant position in this area of research is occupied by the Dixit-Stiglitz model,[10] which is now the accepted model of imperfect competition.

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[9] *Lipsey, R*. Successes and Failures in the Transformation of Economics. - Journal of Economic Methodology, 2001, Vol. 8, N 2, p. 190.

[10] *Dixit, A. and J. E. Stiglitz*. Monopolistic Competition and Optimum Product Diversity. - The American Economic Review, 1977, Vol. 67.

Quite different is the path of development of the oligopoly theory. The game theory, introduced by Neumann and Morgenstern with the important subsequent contributions of Kuhn, Nash, Shubik and others supplies a new, powerful and revolutionary analytical instrument. The new approach is a flexible way for the analysis of the numerous situations on oligopoly markets. Its shortcoming is that the results are connected with every specific model which precludes any of them from having a universal validity.

Today the imperfect competition theory is one of the broadest areas of Microeconomics, which makes use of a wide variety of models, for which the assumptions of the perfect competition model are not satisfied. This part of Microeconomics is an achievement of the XX century economic thought, which brings to a new, much higher level the understanding of how markets work.

The imperfect competition theory continues to improve. A topical question in it is the problem of market entry and contestable markets. One major direction of the development of the imperfect competition theory is connected with the information asymmetry.[11] The taking into account of this new factor introduces in Microeconomics new and important concepts: the market for lemons, adverse selection, and moral hazard. A relatively new model, which enriches the theory, is the principal-agent model.

To conclude the analysis of the development of Microeconomics during the XX century, the general equilibrium model should be mentioned at the end.

L. Walras is the first ("Elements of Pure Economics", 1874), who proposes the idea, that the maximizing behavior of consumers and producers may, and under certain conditions will, yield equilibrium between quantities demanded and supplied on all product and factor markets, e.g. he launches the idea about the existence of a general market equilibrium. His research inspires a number of followers – V. Pareto, K. Wicksell, I. Fisher, H. Moore, etc. As a result of their efforts, the basic theoretical model of the general equilibrium (with the Pareto efficiency criterion) was not only exposed towards the beginning of the XX century, but it enjoyed wide recognition in science as well.

From the point of view of contemporary science, Walras possesses a relatively elementary mathematical preparation. As a consequence he is unable to answer satisfactory several key questions. The first one concerns the problem of existence: whether there exist a solution to the system of equations, describing the general equilibrium (whether the solution is always non-negative prices and quantities). The second question is whether the equilibrium is unique in case that it exists. There are other important questions as well – about the stability or optimality of the general market equilibrium. Economic research in the field during the XX century is exclusively focused towards the answers of these questions, and especially to the first two of them.

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[11] One of the first to put forward this problem is J. Stigler (*Stigler, J. G*. The Economics of Information. - The Journal of Political Economy, 1961, Vol. 69, p. 213-225).

In the 1930s two mathematicians – A. Wald and J. von Neumann direct their attention to the study of the conditions for equilibrium in static and dynamic systems – a research that contributes to the improvement of the instrumental complexity of economic analysis. This research is noticed by Arrow and Debreu, who expand it and apply it to Walras in order to formulate more precisely the general equilibrium theory. Their work in the 1950s proves that under certain circumstances there exists general market equilibrium. For their contribution the two authors are awarded the Nobel Prize for Economics.

The most important change in respect to the general equilibrium theory relates in fact not to the theory itself or to its development, but to its role in theoretical research. As was already pointed out above, during the XX century Marshall's model of partial equilibrium was gradually replaced by the theory of general market equilibrium *as the conceptual framework for the whole Economics* (by which we should understand "that it provides a fruitful starting point from which to approach a substantive explanation of the working of the economic system"[12]).

The review made so far, though incomplete and schematic, allows concluding, that Microeconomic theory has enjoyed a remarkable development during the last century. It has incorporated many new ideas, concepts and instruments. An illustration of its progress is the fact, that some of its parts now become separate fields of knowledge (and academic courses) - Labour Economics, Industrial Economics, etc.

The research frontiers of Microeconomics at the end of the XX century are oriented towards the study of market behavior of firms and households taking into account the information problem. Current models of economic behavior are static and dynamic models under conditions of risk, uncertainty, etc. An interesting and promising direction of research is the study of individual behavior including non-economic incentives. In this research area broadly penetrate other branches of science – psychology, biology. New fields of theory develop – Behavioral Economics, Experimental Economics, Evolutionary game theory. Their main objective is to examine the human behavior beyond the boundaries of economic rationality. This means that at present to reconsideration and rethinking are subjected some of the fundamental premises of the neoclassical theory. What results will this research yield, however, only the future will show.

The modern Macroeconomic analysis

The modern Macroeconomics is no doubt a creation of the XX century. The same however is not true about the macroeconomic approach in economic research. The macroeconomic approach is much older; it is associated with such brilliant accomplishments of theoretic analysis like the "Economic Table" of Fr. Quesnay, Marx's theory of capital, Walras' model of the general market equilibrium.

[12] *Blaug, M*. Op. cit., p. 192. Blaug himself doubts that the general equilibrium theory can perform that role successfully.

It should not be disregarded also that from the dawn of the Political economy as science, since the time of mercantilism, every school of economic thought have had a clear stand towards the intervention of government in economic life (economic policy) – one problem, which is central in modern Macroeconomics.

The roots of modern macroeconomic analysis lie in the ideas of J. M. Keynes and his "The General theory of Employment, Interest and Money" (1936). Although that Keynes' book influences Economics in a revolutionary way, it does not appear on a green field. Within the boundaries of the neoclassical school as theoretical preconditions of the theory of Keynes the specialists point out the monetary theory and the business cycle theory.[13] These theoretical accomplishments from previous epochs lead directly to the original contributions of J. M. Keynes to Economics.

The phrase "Macroeconomics is born with J. M. Keynes" is well familiar and widely spread. Lately however, a different statement is gaining popularity and it is: "The Macroeconomics is born *after* J. M. Keynes". The analysis of the rise and development of Macroeconomics in this research turned out finally to be a verification of which of the two statements has more reason.

In the Introduction of his book and in chapter 1 Keynes defines as his main objective the elaboration of a general theory of the working of the market economy, in relation to which general theory the "classical" theory, according to him, is only a particular case.[14] Thus with the fact of its appearance *The General Theory* confronts the economists with a problem: how the new (Keynesian) theory relates to previous economic theory (the "classical"). During the next decades this turns out to be more or less the guiding line of analysis in the attempts to explain Keynes' theory and also in the attempts to specify and develop it.

Keynes' theory in the beginning is not interpreted as a model of an adjustment mechanism for the whole economy. In the 1950-1960s the attention is towards the consumption function and the multiplier,[15] which are extensively explored. This orientation may be explained by several factors. On the one hand, the consumption function model is simple and comprehensible. But what is more important in the case is that the policy debate at first focuses on fiscal policy. Since the consumption function model nicely captures the effects of fiscal policy, it tends to become the Keynesian model.[16] The contribution for the approval of this model in the U.S. belongs to P. Samuelson and A. Hansen.

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[13] For more detail see *Blanchard, O*. What Do We Know About Macroeconomics That Fisher and Wicksell Did Not? - NBER Working Paper N 7550, February 2000, p. 2.

[14] The Keynes' macroeconomic model is present today in every textbook and *The General Theory* was translated in Bulgarian language (in 1993 for the first time ever). That's why the author accepts that the theory of Keynes is well familiar to Bulgarian economists and does not require a special comment.

[15] A predecessor of Keynes in respect to the idea about the multiplier is his colleague from Cambridge R. F. Kahn, who presents his employment-multiplier analysis in 1931.

[16] *Landreth, H. and D. Colander*. Op. cit., p. 367.

The consumption function model is unsatisfactory for some theoretical discussion, because it does not incorporate an analysis of the interaction between the financial and the real sector. When the policy debate focuses on fiscal policy only, this is not of great importance, but when it includes also monetary policy, things change. A need for a new theory appears. Hick's model satisfied the necessity.

The IS-LM analysis is introduced by Hicks in 1937[17] as a method for the explanation of the difference between the Keynesian and the classical theory of income determination. It combines the analysis of Keynes of the money market with his analysis of the goods markets and demonstrates how equilibrium can be reached through forces that perform on both types of markets. The connection between them exists because the interest rate influences investments, which are a part of aggregate demand.

Other authors, besides Hicks should also be mentioned, who played a vital role for the explanation and elaboration of Keynes' theory. Most influential at that time was a paper by Fr. Modigliani from 1944, published in *Econometrica* ("Liquidity Preference and the Theory of Interest and Money"), a book by L. Klein ("The Keynesian Revolution", 1949) and by A. Hansen ("A Guide to Keynes", 1953).[18] The P. Samuelson's textbook from 1948 and the afterward editions contribute greatly for the spread and popularity of the Keynesian model. The functions of consumption, saving and money demand, expressed in a clear form, represent an easy for utilization macroeconomic model. It allows to understand the Keynesian mechanisms and to illustrate the effects of the policy, designed to regulate aggregate demand.

The IS-LM analysis is recognized in science as the "first stage of the neoclassical synthesis" – a synthesis within the framework of the static macroeconomic equilibrium. The classics accepted a strongly inelastic LM curve, while the Keynesians – a strongly elastic LM curve.

The second stage of the synthesis comes as a consequence of the criticism of the monetarists during the 1950s. The works of M. Friedman in all aspects: philosophical reasoning, theoretical analysis or recommendations to economic policy – contain a radical criticism of Keynesian ideas. They cause no less vigorous reaction in response on behalf of the Keynesians, for example in the publications of J. Tobin, the leader of the American Keynesians. Amidst this debate in the course of time develops the new synthesis between the Keynesians and the classics.

The central role belongs to the Philips Curve. According to Samuelson and Solow, the Philips Curve serves as a basis of the new dynamic model of inflation and unemployment. The Keynesian theory may be interpreted in a static

[17] *Hicks, J.* Mr. Keynes and Classics: A Suggested Interpretation'. - Econometrica, 1937, Vol. 5, N 2, p. 147-159.

[18] A valuable retrospect of the IS-LM model can be found in *Darity Jr., W. and W. Young*. IS-LM: An Inquest. - History of Political Economy, 1995, Vol. 27, N 1, p. 1-41.

perspective in terms of the AD and AS curves, which start to appear in every textbook. Through the Philips curve the nominal wage becomes an endogenous factor and thus the aggregate demand and supply curves receive a dynamic content. The main contribution of M. Friedman is that he reveals the significance of inflationary expectations within the boundaries of this dynamic process.

On the basis of the above developments a new type of synthesis between the Keynesians and the classics develops. The standard macro- model starts to be presented by the IS-LM model, the Philips curves and the concept about the adaptive expectations (introduced by P. Cagan in 1956). To this core the Mundell-Fleming model should be added, which takes into account the international movement of goods and capital and which complements the static aspect of the macro- theory. This sum of theories serves for a while both for the analysis of the theoretical basis of economic policy, and for the construction of large econometric models.

From the point of view of a simplistic comprehension, this standard macroeconomic model can be considered as being Keynesian in the short run and monetarist – in the long run. This does not mean that the discussion between the two schools is exhausted. The Keynesians quickly recognize, that the Philips curve is vertical in the long run, but they refuse to speak about a natural rate of unemployment and prefer the more neutral term NAIRU. Friedman and the monetarists win a victory in respect to the long run, because they convince the macroeconomists of the temporary character of the effects of monetary policy. But they loose position so far as the short run is concerned.

The new synthesis sends clear messages to economic policy. Its results destroy the possibility of governments to influence the long-term unemployment through expansionary fiscal and monetary policy. Any attempt to do so would have some results in the short run, but in the long run it will cause only inflation. According to the new research, policy efforts to reduce unemployment beneath the natural rate, has caused the inflation in the developed countries in the 1970s of the XX century.

The Keynesian fiscal and monetary policy is not entirely rejected: it still can be used to temporarily smooth the cycle. Thus in the beginning of the 1970s a compromise is established between the Keynesians and the classics. In the long run the classical model is valid and the economy gravitates around the natural rate of unemployment. In the short run, however, because it is accepted that individuals adapt their expectations slowly, the Keynesian policies may have certain effects.[19]

From the beginning of the 1980s in the field of Macroeconomics a dichotomy establishes as this has happened in the field of Microeconomics decades ago: the IS-LM model remains the basic model in Introductory Macroeconomics textbooks. In economic research however scientists start to focus

[19] A comment of the Keynesian-monetarist debate presents M. Blaug: *Blaug, M*. Op. cit., chapter 12 “Keynesians versus monetarists”, p. 216-223.

on entirely different problems. The modern debate in Macroeconomics has little to do with the forms of the IS or LM curves. Instead the macroeconomists address macroeconomic problems from the point of view of Micro- and deal with such question as the speed of adjustment of quantities and prices. From a certain point of view it looks like as if the macroeconomist skip the period of the elaboration of the IS-LM model and return back to the macroeconomic debate as it existed during the 1930s, when the issues were framed in microeconomic terms.[20]

During the last two decades of the XX century in respect to the development of Macroeconomics three moments deserve attention: the elaboration of the microfoundations of the Macroeconomics, the rise of the New Classical Macroeconomics and the response of the Keynesians.

- *The Microeconomic foundations of Macroeconomics*

The distinction between Micro- and Macro- exists only in the textbooks. In the theory the problem about the microfoundations of Macroeconomics has always been on the agenda. Keynes, for example, uses the assumption of sticky prices and wages, but he leaves it to his followers to justify this assumption. An early attempt to strengthen the microfoundations of Macroeconomics demonstrates the consumption function. The theories of M. Friedman about the permanent income and of F. Modigliani and R. Brumberg about the life cycle, despite the differences between them, share something in common – they both expand the time horizon in the analysis of economic behavior.

In 1970 a book under the title "Microeconomic Foundations of Employment and Inflation Theory" is published.[21] It is a collective publication, which puts together many pieces of analysis that have accumulated by that time. And although that, according to later valuations, no one of the chapters contains a decisive scientific breakthrough, this book playes an important role for the stimulation of research in the above direction. From the beginning of the 1970s more and more economists get convinced, that Macroeconomics needs a new level of its microeconomic foundations.

The investigations in the field of the microfoundations of Macroeconomics are characterized by novelty of the approach and depth of the results received. The efforts are directed towards the development of a theory for the explanation of the Philips curve, which presents the empirical relation between inflation and unemployment. According to the new theoretical stream, in order to understand the two phenomena, the economists must study the decisions of households and firms and interprete these decisions in macroeconomic terms. At the same time it has turned out that the traditional microeconomic theory is insufficient to help solve the new problems of the macro-analysis. The necessity for new theoretical models

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[20] *Landreth, H. and D. Colander*. Op. cit., p. 375.

[21] *Phelps, E.* (ed.). Microeconomic Foundations of Employment and Inflation Theory. New York, 1970.

arises. The recognition of the importance of the information problem serves as a basis of the new investigations. The Stigler's paper "The Economics of Information" (1961) opens a new research program. At first the models for the study of the microfoundations of the Macroeconomics are partial equilibrium models, but once this approach is justified, the next step is made – the transition to the general equilibrium model. In this way the general equilibrium model, which gradually becomes the fundamental model in Microeconomics, enters macroeconomic analysis as well, as a result of the elaboration of its microfoundations.

- *The New Classical Macroeconomics*

Under the influence of R. Lucas' works a new school develops. Its main characteristic is theoretical consistency, which allows it quickly to acquire a dominant position in Macroeconomics. At first this new school is known as "the rational expectation school", but it soon receives a more adequate name, which better reflects its main theoretical content: there arise the "new classics" (J. Tobin was the first to point this out). In many aspects, both methodological and theoretical, the new school is a return back to the research program of pre-Keynesian economists in business-cycle theory. The attempts to reach a synthesis with the author of *The General Theory* are not important any more. Nor it is necessary to criticize his ideas. The Macroeconomics must simply follow the path, which it should have followed, had not Keynes diverted it in another direction.

A characteristic feature of the new school is the "rational expectations" concept. Suggested for the first time by J. Muth[22] this concept is a development of the neoclassical theory. It expands the hypothesis about the rational behavior to the formation of expectations assuming that every subject makes the best possible use of the available information. It was however R. Lucas who placed this concept at the very heart of Macroeconomics. The resulting theory has a revolutionary influence over macroeconomic analysis.

The fundamental contribution of Lucas is not the replacement of the concept of the adaptive expectations by the concept of the rational expectations, but the choice made in favour of the equilibrium modeling of macroeconomic phenomena. By combining the classical assumptions about the speed by which markets reach equilibrium, with the idea about the rational expectations, R. Lucas develops an alternative point of view about the sources of fluctuations in the economy and about the influence of policy – he develops "the equilibrium model of the business cycle".[23] Under the preconditions of the New Classical Macroeconomics (flexible prices and wages and rational expectations), the fluctuations of the aggregate output may be the result of unexpected shocks only. The individual markets remain

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[22] *Muth, J.* Rational Expectations and the Theory of Price Movements. - Econometrica, July 1961.

[23] In papers from 1972 and 1973, but especially in the article An Equilibrium Model of the Business Cycle - Journal of Political Economy, December 1979, Vol. 83.

in equilibrium during the cyclic fluctuations – hence the name of the model. The unexpected shocks usually relate to unexpected shocks in money supply.

The rational expectations hypothesis hit at the heart the compromise between the Keynesians and the classics in respect to economic policy. In the equilibrium model of the business cycle the shifts in AD and therefore fiscal and monetary policy may have an effect only if they are unexpected. The New Classical Macroeconomics accepts that the economy is efficient and information, including the information about the economic policy, is built in expectations. The economic agents form expectations about what government policy will be and they adjust their behavior in a corresponding way. Economic policy then (monetary policy in particular) becomes an ineffective instrument for the stabilization of the economy.[24] Lucas and his followers in this respect conclude the monetarist research program. They come to a more extreme conclusion than M. Friedman has ever made, but at the same time they justify their rejection of policy regulation of the cycle on the basis of a much more precise and systematic theoretic analysis.

- *The Response of the Keynesians*

The spread of the ideas of the New Classical Macroeconomics provokes different answers on behalf of the Keynesians. Part of them – those that accept the IS-LM analysis believe that the rational expectation hypothesis hardly deserves an answer: it is simply awkward to think that every individual has rational expectations. Another part of the Keynesians, those that belong to the so-called New Keynesian Economics are apt to accept the criticism of the New Classical Macroeconomics to the Keynesian model. This stream of thought believes that there does not exist a contradiction between the Keynesian theory and the rational expectations concept. It further withstands that the assumption about rational expectations does not result in a conclusion about the ineffectiveness of policy. It will be so only if the rational expectations hypothesis is combined with the proposition about market clearance. It is against this proposition, not against the rational expectations, that the New Keynesian object. They construct a model, based on individuals with rational expectations who make rational decisions and maximize their welfare, but even so the decision-making process is accompanied by slow adjustment of prices and wages. At a macro level these assumptions result in an economy in which the cyclic fluctuations of the output are a result of the fluctuations of AD and there exist involuntary unemployment during recession. This rehabilitates the effectiveness of fiscal and monetary policy. The theoretical arguments of the New Keynesian Economics are quickly accepted by the profession, but despite of this the Keynesian Economics could not regain its previous status.

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[24] The famous "policy-ineffectiveness theorem" is justified by Sargent and Wallace (*Sargent, T. and N. Wallace*. Rational Expectations, the Optimal Monetary Instrument and the Optimal Money Supply Rule. - Journal of Political Economy, April 1975).

If we return to the question asked in the beginning of the macroeconomic analysis: whether the Macroeconomics is born with J.M. Keynes or after him, it has become clear by now that this branch has undergone considerable development and modification after Keynes. The Macroeconomics gradually withdraws away from Keynes, the same way as the Microeconomics in its development withdraws from A. Marshall. This gives enough reason to many economists to believe, that Macroeconomics is born after Keynes (based, however, undisputedly on Keynes' original ideas and invaluable theoretical contributions).

It would be far from the truth to claim, that the Keynesian theory is a matter of consensus in current macroeconomic analysis. While it is a permanent starting point for some economists, it has no special importance for others (The New Classical Macroeconomics). But this state of affairs does not mean that every possibility for a synthesis is excluded. The macroeconomists today unite on the basis of several methodological principles: the necessity to develop the microfoundations of the Macroeconomics, the necessity for a close connection between theoretical and empirical research and that Macroeconomics can rely on the accomplishments made so far – these are recognized by everyone. This does not exclude the existence of serious differences and contradictions in respect to theory and methodology. Half a century after the death of J.M. Keynes, the subject of debates remains and so the question what is the place of Keynes in Macroeconomics.

Heterodox Schools of Economic Thought

As has been pointed out in the beginning of this research, the most characteristic feature of the XX century in the field of economic theory is pluralism – the co-existence of different theoretical schools and ideas. The roots of this theoretical variety lie again in the previous, the XIX century. In conjunction with the neoclassical school there develop other theoretical streams of thought. It will require a lot of space to discuss which are these other schools (identified as "heterodox" or "non-mainstream") and how many. It is sufficient to look into the History of economic theory textbooks to find out, that there is no consensus around this problem.[25] In order to avoid discussions and to follow the objective of this paper, the author applies a different approach: admitting that the variety of schools and streams of thought is a characteristic feature of the past one hundred years, that the neoclassical school is not the only one, but it has alternatives (in the past and at present), we shall direct the attention towards only two of the non-mainstream schools – Institutionalism and Marxism.

[25] In the textbook "History of Economic Theory" by Landreth and Colander, for example, the authors attribute to the heterodox theory the following schools: radical political economy, institutionalism, post-keynesians, public choice theory, Austrian economics, Experimental economics. According to others however, Marxism should be included in the group as a separate and significant non-mainstream school of thought.

Institutionalism

The Institutionalism deserves attention for at least two reasons: first, it is considered to be the most serious modern alternative of the neoclassical school, and second, because of the significance of institutional theory for the development of the Economics of the Transition and for the economic reforms from plan to market (which is particularly important for people living in post-socialist countries).

The Institutionalism starts to develop at the same time as neoclassicism. Early representatives of the school from the end of the XIX – the beginning of the XX century are T. Veblen, J. Commons, C. Ayres, W. C. Mitchell. It develops during the whole XX century with ups and downs and has a relatively strong position in present days. A characteristic feature of Institutionalism is that it is a rather heterogeneous theoretical stream, which integrates a wide variety of concepts. A proof of this is the way institutionalists define the central category of this school - institution/institute. What unites the representatives of the institutional school, according to some estimates, is not so much a common theory, but common characteristics of the methods applied, which presume holism, evolutionary approach, empiricism and pragmatism, etc.

Usually the specialists identify three periods in the development of Institutionalism: 1) early Institutionalism (the old negative school); 2) Neo-institutionalism, and 3) the New Institutional Economics. The last is a specific modern version of Institutionalism. The New Institutional Economics makes use of the analytical instruments of the neoclassical school (which the early institutionalists criticized and rejected[26]) for the examination of a wide variety of phenomena. The New Institutional Economics develops as an element of the broadening scope of the neoclassical economics. The representatives of this theoretical stream have received the above name because they give greater tribute to institutional analysis than the neoclassicism does. The concept of transaction costs is central in their research.[27]

It is not easy to establish the exact attitude of Institutionalism towards the orthodox Economics. Among the institutionalists there prevail two different points of view. Part of the economists believe, that Institutionalism and the neoclassicism are mutually incompatible, others – that they are complementary. For example A. Gruchy, a famous researcher and historian of Institutionalism thinks that the true Institutionalism is that of the Veblen's wing (the Commons' wing he calls "false" Institutionalism) and having appreciated the Institutional school this way, he further believes that Institutionalism is incompatible with the neoclassical economics. Other economists, for example W. Samuels, look upon the two schools as complementary.[28]

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[26] For example the criticism of Veblen in his paper "Why Is Economics Not an Evolutionary Science?" (*Веблен, Т*. Защо икономиксът не е еволюционна наука? - Икономическа мисъл, 1993, N 9-10).

[27] *Coase, R*. The New Institutional Economics. - The American Economic Review, May 1998, Vol. 88, N 2.

[28] *Samuels, W*. The Present State of Institutional Economics. - Cambridge Journal of Economics, Aug. 1995, Vol. 19, N 4.

In general the institutionalists criticize the orthodoxy, but they do not reject it fully. The most important for Institutionalism is not the idea, that the neoclassical theory is not true, but that it is incomplete. According to the representatives of Institutionalism, the neoclassicism interprets reality in a too simplified, schematic and abstract mode. Contrary to that, the serious economic analysis according to Institutionalism, requires an extension of neoclassical concepts, the introduction of additional factors in analysis – and here the institutionalists see their role.

Although that Institutionalism is a notable presence in economic theory, for a century development it did not quite succeed to establish itself as serious theoretical opponent of the neoclassical school.[29] The main reason relates to the fact, that the Institutionalism could not build a unified theory, which provides a coherent explanation of the working of the economic system. To a great extent it continues to be an aggregate of various concepts and ideas rather than one theory. Despite of this, Institutionalism has its place in science. By directing the attention of the economists to phenomena and facts, which the Mainstream ignores, institutional analysis expands, complements and makes more precise our understanding of the economic life of society.

Marxism

During the XX century most dramatic turns out to be the historical path of the Marxist theory. If the victory of the socialist revolutions in the first half of the century celebrated the triumph of Marxist ideas, contrary to this the events from the end of the 1980s marked not only the end of the epoch of socialism, but also the turning-point towards shrinking and restricting the influence of Marxism, which until then has been one of the leading and most authoritative schools of economic thought. Despite of these facts, however, a generalized assessment of the development of economic ideas during the past century will have to recognize, that for the most part of the century Marxism has been a dominant theory and ideology for 1/5 of the mankind, a doctrine, exercising influence over the destiny and lives of many peoples and countries.

The epochal event from the last decades of the XX century – the collapse of socialism, does not influence Marxism all around the world in the same way. The strongest is the blow on Marxism in the former socialist countries. During the years of socialism Marxism is an official doctrine and ideology, which is universally studied, popularized and dominates the consciousness of million people. Marxism in the world of socialism is much more than this – it is the theoretical basis for the establishment of the new (centrally-planned) economy and society and as such has a direct relation with social practice. For this reason – the existence of immediate connection between the ideas of Marxism and the establishment of

[29] This valuation belongs to the author, who has had the chance to deal with Institutionalism in previous publications. But such is the opinion of other specialists too. (See for example *Kitson, M.* Economics for the Future. - Cambridge Journal of Economics, 2005, Vol. 25, N 6, p. 829).

socialism, the collapse of the socialist system could not, and did exercise a strong blow on the influence and spread of Marxist theory. In the former socialist countries it was dethroned and the victory of the market over the plan resounded in the minds of many people as a departure with Marxism.

On the background of the historical events in Central and Eastern Europe and the former USSR during the last decades of the XX century, Marxism looses positions among the developing countries as well. After the end of World War Second, for a certain period of time Marxism enjoys popularity among the Third World. At that early period, which witnessed the collapse of the colonial system, the developing countries are looking for a model, which will help them overcome the backwardness. Some of them turn their attention to the socialist countries. Part of the developing countries adopt the so called "third way" of development, and some are even pro-communist oriented. These circumstances open the road for the spread of the ideas of Marxism in this part of the world.[30] The collapse of socialism – on the contrary – requires rethinking of the development agenda (nowadays the developing countries are carrying out market reforms in the same manner as the post-socialist countries do) and parallel to that – the rejection of Marxist ideas.[31]

Probably least significant has been the change in respect to the popularity of Marxism in the developed world. In this region Marxism (especially after the World War Second) develops with no connection with real socialism or with the social practice in general. In the developed countries Marxism is an occupation of a limited group of highly erudite intellectuals, some of whom work in one of the best Western universities. Cambridge Journal of Economics, for example, issued by the Cambridge Political economy society, regularly publishes material on different problems of Marxist theory. Because of the character of this Marxism, the events from the end of the 1980s – the beginning of the 1990s exercised almost no influence over that type of followers of Marx. But the fact of their existence should not be overestimated, because that group of economists has always been and is relatively small.

In 1995 on the pages of the journal "History of Political Economy" and under the initiative of E. R. Weintraub a discussion was organized on the theme "Locating Marx after the Fall".[32] The participants of the discussion were invited to share their opinion about Marxism taking into account the collapse of socialism. That the new historical events from the end of the XX century require rethinking of Marxism, is

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[30] See for example *Sheldon, B. L*. Marxist Thought in Latin America. University of California Press, 1984.

[31] This is true only in most general terms. There continue to be followers of Marxism in many developing countries. The same is true about people in the former socialist countries. And, of course, it should not be disregarded also the fact, that there are still countries, which continue to follow (more or less) the socialist path of development (China, Cuba).

[32] "Locating Marx After the Fall" (minisymposium). - History of Political Economy, Spring 1995, Vol. 27, N 1.

out of question. This stimulates the author to ask a reasonable question: did we in the former socialist countries (in Bulgaria in particular) rethought Marxism and how, and what is its place now?

The transformation that clearly took place can be generalized in one sentence: after 1990, Marxist political economy courses were abolished in Bulgarian universities and were replaced by the standard courses in Economics. This was proclaimed to be “the change of paradigm” in economic theory.

The change of the system in the former socialist countries requires a new economic education, oriented towards the necessities of the market-based economy. Its basis – theoretical and methodological – is the courses in Economics. From such aspect it is obvious, that the change that took place in economic education was inevitable and it should be appreciated positively. Indicative for this is the way, this reform was carried out in Bulgarian universities – at once, radically and universally.

At the same time it is questionable whether or to what extent this can be considered as a “change of paradigm”. Every economist knows very well, that paradigms are changed not in the field of education, but in the field of science. During its several centuries history, the economic theory has witnessed changes of paradigm. This has happened when the existing economic theory has shown internal contradictions or inconsistencies, or was unable to resolve practical problems (or explain the facts). The critical rethinking of the predominating economic ideas has served as an impetus for the generation of new ideas, for the improvement of economic thought. Thus in the process of creative search, as a result of discussions and debates, the science has been changing its platform, the continuous process of its development and enrichment has taken place.

In our country the things developed in a different way. The Marxist political economy was substituted at university level education by the neoclassical economics and this was proclaimed as “the change of the paradigm”. As was pointed out above, the introduction of the new courses in economic education had no alternative and was necessary. What could be expected however to happen, is that parallel to the education reform there will start a discussion in science trying to explain the latest events and especially to answer the question: Why after all are we changing the paradigm? The collapse of the old economic system – socialism, could not be considered as a self-understanding argument – unless we identify theory (Marxism) with social practice (socialism). Unfortunately such discussion did not take place in Bulgaria.

From the author’s point of view there is no doubt that a process of rethinking and revaluating the past is taking place in thousands of minds in Bulgaria since 1990. *But it is also true that until now this process hasn’t received a more substantial external manifestation (with several exceptions*[33]). From a certain point of view the things that happened in Bulgaria are understandable: they are a tiny

[33] The publications of prof. D. Philopov and others.

illustration of the basic fact about how slow, difficult and complicated are the transformation processes, especially those that take place in people's minds. But still – the critical rethinking of the past is an important part of the change of the paradigm and for now it is an obligation, which is not answered in a satisfactory way.

In respect to the main objective of this research: to evaluate the evolution of economic ideas during the XX century, another aspect of the historical destiny of Marxism deserves attention. It is the fact, that from the moment of its appearance up to the present days, the Marxist school has not exercised any influence on the development of the neoclassical school. This is important, since the neoclassical school is the dominant school of thought at the end of the XX century all over the world and it is responsible for the present state of economic ideas. This state of affairs between Marxism and neoclassicism is explainable: not only in respect to their methodology, but also in respect to their orientation (theoretical content) and conclusions, the two influential schools of thought are not merely different; they contradict and deny each other. If the final conclusion of Marxism is about the inevitable historical collapse of capitalism (market-based economy), neoclassicism contrary to this proves that the market is the most efficient system for resource allocation, e.g. it is the optimal regulatory mechanism of economic processes. Because of these differences, throughout the whole period of the co-existence of the two schools no particular interactions or exchange of ideas is witnessed.[34] Marxism remains isolated (or neoclassicism does, depending from the point of view of which we address the situation). Since it appears in the middle of the XIX century until the end of the XX century, Marxism develops as a detached school of economic thought, especially in relation to the Mainstream.

If Marxism (particularly in the former socialist countries) develops separately, the same is not true for the other heterodox schools of economic thought. On the contrary: one of the most characteristic and significant trends in economic thought, especially towards the end of the century, is the increasing interaction and mutual penetration between the Mainstream, on the one hand, and the heterodox economic schools, on the other. The obvious example is the New Institutional Economics, but it is not the only one. Many institutional ideas start to penetrate the methodological and theoretical framework of Economics – the Coase theorem, the transaction cost concept, the role of property rights, contract theory etc. It is indicative that these ideas appear today in the Economics textbooks – though not always, not in all textbooks and more often not as separate chapters, but as parts of chapters. Elements of an exchange of ideas are witnessed also between the neoclassical school and the neo-Austrian school.[35] Recognizing the existence of

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[34] Separate attempts for the integration of Marxism and neoclassicism are being made through the whole XX century and today such attempts continue to be made, but they do not change the overall picture.

[35] *Rosen, Sh*. Austrian and Neoclassical Economics: Any Gains From Trade? - Journal of Economic Perspectives, Fall 1994, Vol. 11, N 4.

market failures, for example, the market theory in its modern variant puts an accent on the free choice of the individual (e.g. on economic freedom) which is a reflection of the ideas of the Austrian school. Interactions also exist between the Institutionalism and the Austrian school, etc. There can be no doubt that these trends will continue to develop and will play an important role for the future state of economic theory.

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There can hardly be found a single economist, who will not be tempted by the idea to be able to look into a future textbook on the History of Economic Thought of the XX century and to be able to see what its contents will be. The way the contents of a XIX century History of Economic Thought textbook is well known: with the permanent place in it of D. Ricardo, T. Malthus, K. Marx, J. S. Mill, A. Marshall etc. Who of the followers of the above mentioned great economists will occupy their place in a History of Economic thought of the XX century textbook? Which of the accomplishments of the XX century will turn out to be intransient and solid? Will the Keynesian Macroeconomics be valuated in the future so high, as it has been through the most part of the XX century? Will there be a place for monetarism or it will turn to be a short-lived phenomenon? What will be the future of the New Classical Macroeconomics? What will be the destiny of Marxism? Today it is very difficult to answer these and many other questions. One of the main prerequisites for that – the distance of time, is still missing. A History of Economic Thought of the XIX century textbook has not been written yet. Out of doubt is, however, that it will have to integrate enormous amount of new ideas, theories and directions of research. Because of this a relatively safe forecast is that such textbook will probably be larger than its predecessors. It will have to present the difficult, contradictory, but at the same time productive and successful road of development, which economic theory has followed during the XX century.

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