

The Evolving Landscape of Economic Inquiry: Historical Paths, Theoretical Shifts, and Future Directions

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Abstract: This paper examines the historical trajectory of world economic development, critiques the evolution of economic science, and explores contemporary challenges to the paradigm of perpetual growth. It argues that the complexities of the modern global economy, characterized by diverse institutions, cultural influences, ecological constraints, and multifaceted goals beyond mere output maximization, have increasingly diverged from the simplified object of study envisioned by classical and early neoclassical economics. The paper traces shifts in economic thought, from early comparative economics focused on system differences, through the rise of institutional analysis, to contemporary discussions on the quality of growth and alternative models that prioritize sustainability and well-being. It highlights how a revival of broader political economic perspectives, incorporating insights into complex human behavior and institutional diversity, is necessary to understand and navigate the challenges of the 21st century.

I. INTRODUCTION

The Historical Path and Dynamics of World Economic Development

The study of economic systems has a rich history, evolving significantly over time. Early comparative economics, emerging during the Cold War, primarily focused on contrasting the socialist economic system, characterized by central planning and public ownership, with the capitalist system, where resource allocation occurred through markets and productive assets were privately owned [1]. With the collapse of socialist systems around 1989, the focus shifted to the study of the transition from socialism to capitalism [2].

This transition process, which had not occurred before, brought unexpected surprises and led to a better understanding of the capitalist system, emphasizing the central role of institutions. Scholars like Douglas North and Oliver Williamson, previously considered peripheral, became mainstream, with work analyzing the fundamental role of institutions in long-run growth gaining prominence [2] [3]. This period saw the rise of "new comparative economics," focusing on the comparative analysis of institutions within capitalist countries. This research has covered diverse areas such as legal systems (common law vs. civil law) [4], political systems (parliamentary vs. presidential democracies, electoral systems) [5], and culture (generalized trust, individualism vs. collectivism) [6].

Beyond contemporary comparisons, a new direction in comparative economics is comparative economic history, which surveys differences in institutions in the ancient past. Building on archaeological and historical research, this field explores economic systems dating back to the formation of the first states. A novel data-gathering exercise on institutions in antiquity has identified two clear clusters. One cluster, termed "statist" systems, like those in ancient Egypt or China, relied on central planning for resource allocation and featured very little private property. In these systems, land often belonged to the emperor or ruler, and the government allocated agricultural and craft goods. Markets were underdeveloped, and foreign trade was controlled by the government. This contrasted sharply with other ancient societies, such as ancient Mesopotamia, Athens, or the Aztecs, which had thriving market systems with strong private property rights [7]. Private property of land and slaves played important roles in economies like ancient Greece or Rome. These differences in ancient institutions can be related to differences between individualist and collectivist cultures that remain important in the modern world [8].

Comparative archaeology provides valuable data for understanding institutions in the ancient past. Scholars in this field, such as Bruce Trigger, have undertaken comparative studies of ancient civilizations, detailing variables like kingship rules, state structure (territorial vs. city-states), urban development, class systems, family organization, government administration (centralization/decentralization), legal systems, land ownership rules, foreign trade, and craft production. This detailed comparison reveals considerable variation in institutions across different ancient civilizations. The interest in institutions in economic history has led to the discovery of significant institutional diversity in antiquity and in pre-industrial societies. This historical perspective reveals that economic systems could be as starkly different in ancient times as those studied by early comparative economics focused on the 20th century.

Furthermore, the historical record suggests that there is no single predetermined path for institutional evolution driven by technological development. Instead, historical paths can be parallel or exhibit bifurcations, leading to a diversity of institutional arrangements in pre-industrial societies. Understanding contemporary economic systems, such as China's market economy under a communist political regime, requires understanding its culture and the long history of its specific institutions, not just recent communist ideology. The current Chinese institutional system, which emerged after economic reforms in 1978, differs significantly from Mao's communist system and has lasted longer, suggesting the relevance of historical institutional legacies.

Research into comparative culture has also explored the historical origins of differences like individualism and collectivism. Some theories relate the emergence of particular cultures to geographical reasons, such as the epidemiological environment. The parasite stress theory suggests that societies facing high prevalence of infectious diseases may develop collectivist cultures with stricter social norms and reduced openness to outsiders as a means to minimize disease spread. Other research explores links between genetic variants related to psychological pain from social exclusion or stress reactivity and the prevalence of collectivism in populations. While geographical and biological factors may offer partial explanations, there is also an argument for the co-evolution of culture and institutions, where early institutions may have shaped cultural values, which in turn helped consolidate both the institutions and the culture.

The transition from communism in the late 20th century offers a more recent example of diverse historical dynamics. Outcomes varied greatly among former communist countries, with Central Europe and the Baltics experiencing quicker stabilization and recovery compared to the former Soviet Union and Yugoslavia, which saw more severe output falls and slower recovery. Political liberalization also differed, with some countries quickly adopting free elections and stabilizing democracies, while many former Soviet Union countries drifted towards autocratic rule [9]. The divergence in economic and political outcomes is linked to differences in institutional setups and their evolution. Explanations for this divergence include geopolitical and accession effects, as well as legacies in economic, political, or cultural structures. A potentially important factor was the differing development of civil society and interactions between civil society activists and powerholders prior to the fall of communism. Debates arose about whether strong power concentration or political pluralism was more conducive to successful economic reforms during the transition.

One view argued that concentrating power and implementing rapid "shock therapy" was necessary to prevent short-term losers from using newly acquired democratic rights to resist reforms in societies with flat social structures [10]. The opposing view argued that vibrant civil society and political institutions preventing power concentration ("enabling constraints") fostered more legitimate and durable reforms by stabilizing expectations and extending time horizons. The absence of political and societal pluralism was seen as a danger, potentially allowing early winners of reforms to capture the state and extract rents, limiting overall welfare gains [11]. Research attempting to quantify pre-transition civil society activity has explored its impact on subsequent economic and political developments, finding some evidence that dissident activity, particularly when motivated by human rights and political change concerns, was associated with sustained liberalization and democratization.

These historical paths reveal a persistent diversity in economic organization and development trajectories across time and regions, influenced by interacting factors including institutions, culture, geography, and societal dynamics.

2. The Evolution and Critique of Economic Science and Contemporary Macroeconomic Issues

Economic science, as a distinct discipline, emerged from the broader field of political economy towards the end of the 19th century. Prior to this split, the political economy, as practiced by

figures like Smith, Ricardo, Marx, and Mill, was centrally concerned with wealth creation. While the question of value gained prominence in economics initially after the split, an abiding concern with efficiency – essentially wealth creation by another name – remained throughout the history of economics as a separate discipline. The Ngram data show references to "political economy" falling as "economics," "politics," and "sociology" rose around 1880-1890.

This separation is associated with the articulation and elaboration of the rational choice model [12]. In this model, individual preferences are typically taken as exogenous, and action is motivated by preference satisfaction, with reason serving this end. This simplification, embodied in the homo economicus model (the idea that people are atomized, profit-maximizing agents), marked a break from earlier, more complex understandings of human behavior found in political economy traditions. Early economists recognized bounded rationality, social cooperation, and intrinsic motivations [13] [14].

However, contemporary macroeconomic issues and challenges increasingly expose the limitations of economic models rooted solely in neoclassical abstraction and the simplified homo economicus model [15]. The global economy has faced a succession of crises since the 2007 financial crisis, leading to a sustained slowdown in GDP growth across advanced and emerging economies. The COVID-19 pandemic and subsequent lockdowns resulted in surging public debt and a reversal of global development progress. Geopolitical tensions have further reshaped the international order, impacting technology, growth, and development. Overlaying these is the growing awareness of climate change and the grave dangers posed by rising global temperatures. Alongside these economic and environmental pressures, social polarization and mistrust in institutions are growing in many societies.

These multifaceted challenges raise questions not just about the stability of traditional approaches to stimulating growth, but about the very goals and values underpinning it. The conventional focus on GDP growth alone is increasingly seen as incomplete. GDP is often used as an indicator of overall economic health, but a deeper understanding of the underlying nature and quality of growth is needed for positive economic, societal, and environmental outcomes. There are acknowledged methodological and conceptual shortcomings of the conventional GDP metric, although it remains widely used [16].

There is currently no consensus on a single, universal model or recipe for "good growth". Countries have divergent interests, priorities, and starting points. This context necessitates a shift towards assessing growth in a more holistic way. The World Economic Forum's "Future of Growth Framework" proposes a multidimensional approach that evaluates the quality of growth and the balance between various priorities, rather than aggregating them into a single index. This framework is grounded in four pillars: Innovativeness, Inclusiveness, Sustainability, and Resilience [17]. These pillars denote positive attributes, though the framework avoids prescribing, which is most important or the optimal balance, recognizing different country circumstances. The aim is to provide a tool for countries to explore areas for improvement, trade-offs to resolve, and synergies to develop.

The modern economy, therefore, is no longer adequately described or analyzed solely through the lens of classical or early neoclassical economics, which often focused on efficiency, wealth

creation (approximated by GDP), and assumed idealized conditions or simplified human behavior. The contemporary context demands consideration of:

- Institutional diversity and change: Recognizing that institutions are not static but evolve and significantly impact economic outcomes, as highlighted by the study of both ancient and transition economies [18].
- Cultural influences: Understanding how cultural factors like individualism, collectivism, or trust interact with institutions and economic performance.
- Complex human behavior: Moving beyond the homo economicus model to recognize bounded rationality, social preferences, and the importance of rule-following and cooperation, concepts explored in behavioral economics and related to the political dimension of collective action [19].
- Environmental limits: Acknowledging that economic activity operates within ecological boundaries, challenging the assumption of infinite substitution or perpetual, environmentally harmful growth [20].
- Multidimensional goals: Recognizing that societal well-being encompasses more than just GDP, including factors like equity, health, community, and ecological balance [21].

The late 20th century saw a revival of interest in political economy. Two accounts explain this revival: one, the "providential" account, sees economics (specifically the rational choice model) expanding its influence on other social sciences. The other, the "prudential" account, views it as economics recovering aspects it lost during its separation from political economy, particularly a more complex model of individual action involving rule-following and social preferences [22]. Behavioral economics, with its findings on other-regarding behavior, is seen as indicative of this recovery. This debate over the model of individual agency is crucial, as it fundamentally shapes the type of explanations and prescriptions developed in political economy. The prudential account suggests that this recovery is important because the rule-following conduces to collective action, which has a political dimension.

Furthermore, the concept of economic independence has gained relevance in the contemporary context, where less powerful countries face pressures from more powerful ones, multinational corporations, and international organizations. The development and application of metrics like the Economic Independence Index (EII) highlight a contemporary concern about vulnerability and resilience to external economic shocks, directly linked to sustained economic growth. This focus on resilience adds another dimension to the understanding of national economic performance that extends beyond traditional metrics of output and efficiency.

These contemporary challenges and the evolution of economic thought suggest that the simplified models of classical and early neoclassical economics are insufficient to capture the complexity and normative dimensions of the modern global economy. A broader, more nuanced approach, akin to the concerns of political economy, is increasingly necessary.

3. Challenges to the Perpetual Growth Paradigm and Alternative Economic Approaches

A significant challenge to traditional economic thinking in the 21st century is the questioning of the necessity, desirability, or even possibility of perpetual economic growth, particularly in

wealthy countries. The assumption that economic growth is always good and essential for progress, a core tenet of classical/neoclassical economics, faces scrutiny in light of mounting environmental pressures and social concerns.

Post-growth economics is an alternative approach that argues against the necessity of perpetual growth. Instead, it proposes a shift in focus from maximizing quantity (GDP) to maximizing quality, prioritizing well-being, sustainability, equality, and ecological balance. It recognizes that nature has non-substitutable limits and that an "ecological ceiling" matters, a perspective that breaks significantly with the neoclassical assumption of infinite substitution via technology or capital [23]. Post-growth economics advocates for redesigning institutions to promote equity, resilience, and ecological balance, and focuses on redistribution and sufficiency rather than assuming growth will simply "trickle down" [24]. It also challenges the idea that more work is always good, advocating for reduced work hours and a better work-life balance [25].

While critics raise valid questions about how a complex global economy could operate without growth, particularly concerning public finances, pensions, debt, and global coordination, post-growth thinkers argue that it is better to plan a transition away from growth dependency now rather than face a chaotic future collapse. Post-growth is framed not as an anti-economy, but as pro-resilience, pro-equity, and pro-sustainability, questioning the fundamental purpose of the economy.

Post-growth economics is not a complete rejection of classical economics but is better understood as post-neoclassical. It revives the moral, ecological, and institutional concerns present in the political economy tradition (Smith, Mill, Marx) but adapts them for a world facing planetary boundaries. Where classical economics focused on efficient allocation under scarcity, post-growth emphasizes just sustainable provisioning within ecological limits. It rejects neoclassical abstraction, the homo economicus model, and the faith in infinite substitution and perpetual growth, viewing these assumptions as physically and socially unsound.

A related, albeit distinct, perspective is offered by the World Economic Forum's "Future of Growth" framework. While this framework starts from the premise that economic growth remains an essential policy objective for improving living standards, it strongly emphasizes that growth alone is insufficient, especially if it is unequally distributed, prone to shocks, or harms the environment. The framework argues that the key question is how growth is achieved and whether its quality is aligned with other important national and global priorities. The multidimensional framework with its pillars of Innovativeness, Inclusiveness, Sustainability, and Resilience serves to qualify traditional growth measures [17]. This approach reflects a growing recognition within mainstream discourse that a simple "return" to GDP growth, as measured conventionally, is not enough. Instead, countries must pursue a unique and complex journey towards achieving growth that balances innovation, inclusion, sustainability, and resilience. The debate around "green growth" and the feasibility of decoupling growth from environmental harm is part of this discussion [26].

These perspectives collectively represent a significant challenge to the traditional, quantity-focused growth paradigm that was central to economics after its split from political economy. They highlight the increasing awareness of ecological limits, social equity concerns, and the

need for economic systems to deliver broader well-being and resilience, rather than solely maximizing output indefinitely. They underscore the argument that the object of study for classical and early neoclassical economics – essentially wealth creation through efficient allocation, often assuming conditions that no longer hold (or never did) – is insufficient for understanding and addressing the complex realities of the modern global economy.

Conclusion

The historical path of world economic development reveals a significant diversity in institutional forms and economic organization, ranging from ancient statist systems to market-based economies, and the complex transitions of the recent past. This historical perspective, coupled with the multifaceted crises and challenges of the 21st century—including global growth slowdown, environmental degradation, social polarization, and institutional mistrust—underscores the limitations of viewing the modern economy through the lens of economic science as it solidified after its late 19th-century split from political economy.

The focus of classical and early neoclassical economics on wealth creation, efficiency, simplified models of human behavior, and often an implicit assumption of boundless resources or the trickle-down benefit of growth proves increasingly inadequate in a world defined by complex and evolving institutions, deep cultural influences, hard ecological limits, and a growing demand for outcomes beyond mere quantitative output.

Contemporary discussions and alternative economic approaches, such as post-growth economics and the World Economic Forum's qualified growth framework, explicitly challenge the perpetual growth paradigm and advocate for a shift towards prioritizing well-being, sustainability, equity, and resilience alongside, or even instead of, quantity growth. The revival of political economy, incorporating insights into more complex human agency and recognizing the inherently normative nature of economic policy, reflects a necessary return to a broader framework capable of addressing the intertwined economic, social, political, and environmental challenges of today.

Therefore, the modern economy, with its intricate interplay of institutions, cultures, environmental constraints, and the demand for qualitative outcomes, is indeed a fundamentally different object of study than that primarily conceived by classical economics. Navigating this complex landscape requires moving beyond outdated paradigms and embracing the richer, more contextualized perspectives offered by contemporary comparative economics and political economy.

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