ISSN 2049-3274

World Economics Association Newsletter

Volume 2, Issue 6

December 2012

To *plurality*. The Association will encourage the free exploration of economic reality from any perspective that adds to the sum of our understanding. To this end it advocates plurality of thought, method and philosophy.

Inside this issue:

Past Newsletters available at:

http://www.worldeconomicsassociation.org/newsletters/

Contribute to the World Economics Association

Call for contributions:

http://www.worldeconomicsassociation.org/contribute/

WEA Conferences: latest news

As I write the Sustainability conference is closed. It has gone very well thanks to the efforts of Peter Soderbaum and Malgorzata Dereniowska, the two leaders. We have been discussing publication plans for some of the papers. The Financial Markets conference is the third and last conference for 2012. It will be closed by the time this Newsletter is published.

Here is the timetable for the conferences planned for the first five months of 2013. It is followed by a list of four possible conferences currently under discussion.

Timetable for conferences in 2013

Conference and leaders	Paper Deadline	Discussion Forum
The Political Economy of Economic Metrics (Merijn Knibbe)	7th Jan 2013	28th Jan to 25th Feb
Economics Curriculum* (Jack Reardon)	10th Feb 2013	3rd to 31st March
Distribution and Growth in Asia* (Jayati Ghosh)	24th March 2013	15th Apr – 13th May

Conferences under discussion

1. The economy and politics of Arab countries*. Leaders: Ali Kadri and Linda Matar
2. Europe and the Euro*. Leaders: Claudio Gnesutta and Mario Pianta
3. The economy and politics of Mexico*. Leaders: Juan Carlos Moreno and Alicia Puyana
4. Neoliberalism in Turkey: A Balance Sheet of Three Decades". Leader: Prof. Erinc Yealdan, Bilkent University

*Provisional titles

All members are invited to participate. The WEA needs:

- **Your reviews and comments for posted journals and conference papers.**
- **Your papers for the journals and the conferences.**
- **Your suggestions for future conferences and leaders.**

Grazia Ietto-Gillies
Chair, Conference Organizing Committee
iettogg@lsbu.ac.uk

PAPER DEADLINE FAST APPROACHING

Conference: The Political Economy of Economic Metrics

The conference can still use a good article about the Sen/Fitoussi/Stiglitz report, "Report by the Commission on the Measurement of Economic Performance and Social Progress" which does contains lots of good ideas - but lets economic theory of the hook.

Merijn Knibbe

WEA Conferences 2013 The economics curriculum: towards a radical reformation

Online WEA conference March 3 — March 31, 2013, paper deadline 10th February

Introduction

Alfred Marshall, in the eighth edition of his *Principles of Economics,* wrote that "economic conditions are constantly changing, and each generation looks at its own problems in its own way" (Marshall 1946 [1920], p. v.) Our generation is beset with many problems including climate change, a global financial crisis, a palpable disparity in income and wealth, and a health care crisis. These problems are mutually reinforcing and will only worsen.

At the center, however, is the discipline of economics itself and economics education, which obfuscates the interrelationship of our problems, inures its students to human suffering and abnegates thoughtful discussion of the human predicament. Indeed, as E.F. Schumacher wrote a generation ago, "economics [and economics education] as currently constituted and practiced, acts as a most effective barrier against the understanding of [our] problems" (Schumacher 1989, p. 50).

To date, calls for reforms of economics education within the neoclassical paradigm have been tepid, content with tinkering around the edges, adding less chalk to more talk, while leaving the bulk of the curriculum intact. We believe it is time for a radical reformation of economics education. We need real world economists to help solve our generation's problems, and we need a real world economics to conceptualize our problems. But first things first: we need a radical reformation of the economics curriculum. We hope this conference will stimulate debate on the structure, content and reconceptualization of the economics curriculum. We also anticipate this conference will effectuate changes in the curriculum for the benefit of the profession and of ordinary people across the world.

Conference call

We invite contributions in three main areas. These are merely suggestive and by no means exclusive:

1. What is the current curriculum in various countries? What is wrong with the current training of economists? How can we constructively critique the existing curriculum in order to move forward?

This part will include papers on:

The existing curriculum from any part of the world. We are interested in authors from both developed and developing countries. How does the existing curriculum help or hinder development and how can a reconceptualised curriculum enable the achievement of development objectives? How does the current curriculum help or hinder the understanding of economic systems and the development of effective relevant policies in various countries?

Critiques of current practices on theory, methods, breadth and structures.

2. Pedagogic issues. How should the curriculum be structured? And how should it be presented?

This part will include papers on:

Radical and innovative suggestions for structuring a curriculum to educate real world economists.

Should there be a proper course sequence, e.g., from principles to intermediate to advanced courses? And if so, what?

How should we teach the beginning courses in order to attract and keep students?

How should we teach intermediate courses?

Should majors be taught differently from non-majors?

Issues related to post-graduate economics education.

3. What curriculum should real world economists aim for?

This part will include papers on:

The role of economic history and history of economic thought in the curriculum.

The role of other social sciences and of the physical sciences.

The role of the humanities.

The role of mathematics.

Pluralism in the curriculum: teaching different paradigms.

The curriculum in different geographies and cultures.

Effective teaching methods.

Leading Team

Main leader: Jack Reardon

Jack teaches economics in the School of Business at Hamline University in St. Paul, Minnesota, USA. He is founding editor of the *International Journal of Pluralism and Economics Education*. His main areas of research include: reforming economics education, energy and the environment. Email: jreardon02@hamline.edu

Co-leaders:

1. Maria Alejandra Madi, is a specialist in international macroeconomics and development at the State University of Campinas, Brazil. Besides her participation as co-author in chapter books edited by the Global Labor University, she has recently contributed with the Green Economics Institute books. She is co-authoring a new textbook in economics, entitled *Principles of Economics for a Pluralist, Progressive and Sustainable World*, to be published by Pluto Press. Email: alejandra_madi@yhaoo.com.br

2. David Wheat is associate professor of system dynamics (SD) at the University of Bergen in Norway, where he teaches graduate courses on dynamic modeling and policy design. He teaches economics at ISM University in Lithuania and to U.S students (online) at Virginia Western Community College. He is managing a project to develop SD modeling capacity in a Ukrainian university economics department. david.wheat@uib.no

3. Haiyun Zhao, is the author of the Particularity of Chinese Monetary Policy. She specializes in international finance and monetary economics at Minzu University of China in Beijing. Email: zhhyun2002@yahoo.com

WEA in Buenos Aires

By John Weeks

The president of the Central Bank of Argentina, Mercedes Marcó del Pont, opening the 2012 conference. WEA founding member James Galbraith is seated at the table second from left.

The public recognition and influence of the World Economic Association was demonstrated at this year's annual conference of the Central Bank of Argentina ("Bancos Centrales y Sistemas Financieros para Dearrollo", 1-2 October 2012). Founding members of the WEA made up one-third of the fifteen outside speakers (in order of their presentations, James Galbraith, Jayati Ghosh, John Weeks, Randall Wray and Jörg Bibow, and all presentations can be found at http://www.bcra.gov.ar/index.asp).

The other ten speakers, while not WEA founders, were almost without exception dedicated to our principles that the profession should be open, relevant and intellectually diverse. In addition, during the following fortnight John Weeks appeared on national television and radio discussing economic policy, and gave four invited lectures to Central Bank staff and graduate students from nearby universities.

The presentations to the conference followed several themes highly relevant to the currently depressed world economy, national policies for recovery, and measures to prevent recurrence of the global financial disaster of the late 2000s. The first theme was that the global contraction resulted from severe imbalances in the developed countries, derivative from growing inequality and abandonment of public interventions to prevent the instabilities inherent in national and global markets, especially financial markets.

Second, several speakers argued that the reduction in the role of central banks to "fighting inflation" limits the policy instruments for governments to respond to the cyclical swings also inherent in market economies. This theme related directly to the new charter of the Banco Central de la Republica Argentina (BCRA), passed by the legislature and signed into law in March of this year. The new charter broadens the mandate of the BCRA, granting it greater powers of policy making. These include accommodating fiscal policy, in a manner consistent with the institutional independence of the BCRA (specified in Chapter 1, section 4, of the new charter, (http://www.bcra.gov.ar/pdfs/marco/CartaOrganica2012_i.pdf).

Third, there was general agreement that international flows of portfolio capital generate domestic macroeconomic instability. This theme included a range of policy recommendations including various forms of capital controls with the purpose of shifting development finance to domestic financial institutions. The combination of exchange controls and public sector banks has contributed to this shift in Argentina.

To describe the conference as atypical of what one expects from a central bank event would be an understatement. It was clear that the open minded approach of the speakers was appreciated by the central bank president, who attended most of the presentations. Stress on quantity adjustment at the macro level rather than relative price adjustment led to policy-relevant discussions that broadened out from a focus on inflation to consider employment generation, income distribution and selective credit allocation.

PhD Studentship – Pluralism in Economics

Anglia Ruskin University, Lord Ashcroft International Business School is offering a PhD studentship in the area of pluralism in economics - of £15000/year plus covering the fees for European Union/UK students (in the case they will be overseas/international students they will have to pay the difference of the fees).

The deadline for applications is 7th of January 2013.

The successful applicant will start the PhD at the end of January 2013 at the earliest and by September 2013 at the latest. The project will be supervised by Dr Ioana Negru. The description of the project is as follows:

Pluralism in economics: the project will investigate how economics has become a homogeneous science after 1945. The project investigates the mechanisms, institutions and processes through which the formalist revolution transformed economics into a homogeneous discipline. This project would suit someone suitably qualified in economics, methodology and history of economics or heterodox economics.

Click here for further details

Interested applicants should contact Dr. Ioana Negru, email: ioana.negru@anglia.ac.uk

Support-bargaining and the importance of groups

By Patrick Spread

Mainstream economics has been criticised for its atomistic approach, which assumes autonomous individuals. Elsewhere groups have been considered to play an important part in the workings of society and the economy. One advocate of this is Patrick Spread. He uses the concept of support-bargaining, about which he has written extensively over the past 30 years. His latest book was published this October. Details of this and earlier publications are at the end of this piece. Here Patrick briefly introduces the concept. [Ed.]

Darwin's theory of natural selection presents human beings as self-interested and aggressive. Humans have survived in the 'struggle for existence' because they have had the aggressive instincts necessary to see off competition. The theme has been taken up by many social scientists. Many economists see it as an important corroboration of the concept of markets based on competitive individualism. The 'survival of the fittest' has been seen as applicable both to the process of natural selection and competition in markets.

Darwin, however, was never entirely happy with his explanation of natural selection in terms of individualistic aggression, at least as a full account of the process. In *The Descent of Man* he recognises that humans have 'social virtues' and a sense of 'sympathy', meaning something like empathy in modern usage. He sees that humans are sociable as well as individualistic, but acknowledges that he is unable to provide an account of the social dynamics of humans that will have comparable status to his theory of biological evolution.

The root of the problem is perhaps that Darwin missed the importance of the human instinct for self-preservation. Human individuals have by nature a strong sense of self-preservation. They will for the most part try to avoid conflict and injury. The very strong emotion of fear alerts humans to threats to their self-preservation. The response of every individual is to seek the support of others. So fear, or insecurity, is the trigger to group formation. The group provides security, both psychologically and in the real sense that groups are essential to effective engagement in violence. To gain the support of others, individuals compromise their own interests and sustain the interests of the group. Some individuals will be more valuable to the group than others, and the differences will be reflected in the compromises each makes for the support he requires. Group formation becomes a matter of 'support-bargaining'. The individuals whose skills and talents are most valuable to the group will have the greatest influence in determining the interests of the group.

Once assured of group support, humans become more confident. Members reassure each other of their courage and fighting prowess. Each individual has an interest in ensuring that all the others fight valiantly and selflessly for the group interest. Involvement in a cohesive group can bring out the aggressive instinct in humans. Humans appear to be aggressive because they invariably get together in groups. As individuals, the instinct for self-preservation is more prominent.

In the Darwinian context support-bargaining is the process by which groups are formed for violent purposes, either defensive or aggressive. But in a social context it becomes the process by which societies identify and advance group interests. People hold meetings to discuss and agree on an approach to local problems. A dominant individual may persuade the others to support his recommendations. Or a show of hands may be requested to see which approach has the most support. Political parties form through support-bargaining to sustain certain interests. It is a fundamental principle of democracy that majority support entitles a group to advance of its interests. Even in the intellectual sphere, groups assemble through support-bargaining to sustain certain theories regarding the nature of human society and the changes they would like to see. The debates over economic theory can be understood as competitive assembly of support. Support-bargaining can be seen as the essential mechanism by which human societies evolve.

Further writing on this topic by Patrick Spread, books:

Support-Bargaining, Economics and Society: A Social Species, published by Routledge, October 2012. Link: www.routledge.com/9780415641128

A Theory of Support and Money Bargaining (Macmillan 1984)

Getting It Right: Economics and the Security of Support (Book Guild, 2004)

Support-Bargaining: The Mechanics of Democracy Revealed (Book Guild, 2008)

Articles:

'Blau's Exchange Theory, Support and the Macrostructure', *The British Journal of Sociology*, Vol. 35, No. 2, June 1984.

'Lindblom, Wildavsky and the Role of Support', *Political Studies,* Vol. 33, No. 2, pp. 275-295, June 1985.

'Situation as Determinant of Selection and Valuation', *Cambridge Journal of Economics,* Vol. 35, No. 2, pp. 335-56, March 2011.

'Science and Support: The Struggle for Mastery in Economics', *Real World Economics Review,* Issue No. 59, 12 March 2012, pp. 39-57.

'The evolution of economic theory: And some implications for financial risk management', *Real World Economics Review,* Issue No. 61, 26 September 2012, pp. 125-135.

Reality Economics, review of *Economics and the Powerful*

By Michael Hudson

Norbert Häring and Niall Douglas, *Economists and the Powerful* (London: Anthem Press, 2012).

Economic theory is broken. Häring and Douglas show that it did not get this way by accident. They provide a wealth of references tracing the deliberate effort to turn economics into a propaganda exercise for the financiers, landlords, monopolists, insider dealers, fraudsters and the rent-seeking predators whom classical economists sought to tax and regulate out of existence. The free lunchers fought back by sponsoring self-serving fictions that depict them as earning their fortunes not in predatory and extractive ways, but by contributing to output as "job creators."

As an antidote to the narrow tunnel vision that defines markets merely as quantities of labor, products and goods to be supplied, demanded and cleared in a way that best benefits all society, the authors point to the real invisible hand: insider dealing, anti-labor and anti-union maneuvering, and outright looting and fraud, while employing strikebreakers, lobbyists and lawmakers to act on behalf of the 1%. This is what they mean by power.

Criticizing the neoclassical theory of the firm, they point out that that most production has increasing returns. Unit costs fall as fixed capital investment is used for a larger output. As a producer with nearly zero marginal cost, for instance, Microsoft benefits from rising intellectual property rent on each program sold. It follows that by increasing overall demand, raising the minimum wage would enable firms to benefit from increasing returns.

Chapter 5 describes management's war against labor. On the firm-wide level it cuts costs by lowering wage and pension obligations and by reducing quality. It also uses its power to ensure the appointment of anti-labor referees to the courts and arenas that arbitrate disputes over employment, working conditions and firing. And on the economy-wide level, employers fight to shift the tax burden onto labor and consumers. They oppose full-employment policies to keep wage levels low, even though this limits the market for their output. And capital-intensive industries outsource low-skill jobs to small-scale providers that use non-union labor. Privatizing public utilities also is largely a drive to break the power of labor unions.

What *have* been rising are financial and other "external" non-production costs, headed by debt charges for leveraged buyouts and corporate raiding, plus CEO salaries, bonuses and stock options. Financial "engineering" is all about raising stock prices – but not in ways that serve stockholders' long-term interest or that of the economy at large. Loading companies down with debt, corporate raiders use the threat of bankruptcy to demand pension-fund downgrades and givebacks.

Häring and Douglas give a scathing reply to the practice of paying managers in stock options to "motivate" them. Managers maximize the value of their options by using corporate revenue for stock buy-backs rather than new direct investment to expand their business. Even worse, companies may borrow to buy their stock and bid up its price. Concealing this hit-and-run short-termism with Enron-style "mark to model" accounting fictions ends with managers taking the money and running, leaving bankrupt shells in their wake.

The "capital" in stock market gains is financial, not tangible means of production. The tax system encourages debt leveraging by taxing asset-price gains at much lower rates than "earned" income (wages and profits), and by permitting interest to be tax-deductible. This policy is by no means an inherent feature of markets. It reflects the financial sector's capture of tax policy, along with regulatory capture to disable the government's ability to promote the broad national interest.

The problem with financial planning is its short-run time frame, aiming at extracting rather than producing income. Its strategy is to privatize, deregulate, and popularize the idea that economies can get rich by going into debt. This is how Wall Street managers have de-industrialized the U.S. economy and brought on the 2008 financial crisis.

Having become a catechism to defend the shift of central planning away from government to Wall Street and other financial centers, neoliberal doctrine demonizes government as the only power able to regulate and tax unearned income and prosecute fraud. The idea of free markets has been inverted away from the classical meaning of markets free *from* unearned economic rent to mean today's arena free *for* predatory *rentiers* and fraudsters. Lobbyists for the 1% have popularized a junk economics to lead populations to believe that today's economy is a fair and indeed natural inevitable product of Darwinian evolution. As Margaret Thatcher put it, There Is No Alternative.

The ultimate power of today's mainstream economics is that of shaping how people perceive the economy around them. "If the eye offend thee, pluck it out." Häring and Douglas describe the academic process of weeding out any offending eyes that might introduce more realism when it comes to predatory behavior and rent seeking.

The final chapter notes the revolving door between the military-industrial complex and officials (most notoriously, Dick Cheney of the Dept. of Defense and Halliburton), or Goldman Sachs officials and financial regulators. The Citizens United ruling on campaign financing privatizes the election process to catalyze "regulatory capture" of public agencies by the industries they are supposed to regulate. Excluding these considerations distracts students and voters from looking at the real-world power structures at work.

Focusing on domestic power rather than spelling out the international dimension of how economic power is wielded, the authors do not cite the IMF, U.S. Government and European Union bureaucracy in imposing the neoliberal Washington Consensus on governments subject to foreign-debt leverage. This is how the European "troika" imposes austerity on Greece. Democratic government is to be replaced with "technocrats" whose policies serve the 1% in today's class warfare. This struggle remains a key to understanding how economies are evolving.

Internationally, financial warfare aims at what military aggression did in times past: seizure of land (by foreclosure rather than armed occupation), natural resources and public infrastructure. After indebting countries, creditors lobby to create monopoly rights for themselves. The first step is to privatize natural monopolies – using the proceeds to pay global creditors.

Indebting governments is a major weapon of power. The next step is for international coercion via the multinational IMF, World Bank and ITO to override democratically elected government policy. The authors are too polite to mention the targeted assassinations by which the Chicago Boys imposed their kleptocratic policies on Chile under Pinochet, or Operation Condor assassinating labor leaders, land reformers and Liberation Theology priests throughout Latin America and in the United States itself.

Network for Critical Studies in Global Capitalism

Conference: 'Global Capitalism in Asia and Oceania'
28-29 June 2013, Brisbane, Australia

The Network for Critical Studies of Global Capitalism was organized during a 2011 conference in Prague. The conference, 'Global Capitalism and Transnational Class Formation' brought together scholars from 20 different countries whose study and research has focused on capitalism as a transnational system. The conference was sponsored by the Centre of Global Studies (Academy of Sciences, Prague) the Global Studies Association of North America and the International Sociological Association Research Committee RC02 (Economy and Society). Scholars attended from Western, Central and Eastern Europe, Russia, Canada, the USA, Turkey, Iran, Mexico, Japan, South Korea, Hong Kong, China and Australia.

This was the first international conference devoted to transnational capitalist class (TCC) theory and global class formation. Over the past decade a growing body of work has established TCC theory as an important theoretical approach for examining global capitalism, and organizers felt the time was right to bring scholars together to share their research. Panels covered a wide range of topics, and after the conference groups of select papers were published by *International Critical Thought* (China), *Socialist Studies* (Canada) and upcoming issues of *Globalisations* (U.K.) and *Perspectives on Global Development and Technology* (U.S.A).

At the end of the conference a business meeting was held that officially established the Network for the Critical Studies of Global Capitalism, an international coordinating committee, and a commitment to hold another conference in two years. The Network also decided to expand its focus beyond TCC theory, to the broader field of global capitalism and the various schools of thought that encompass this area of study and analysis. The main purpose of the Network is to increase contact and discussion among an international set of scholars, develop the study of global capitalism as a diverse and rich school of thought, and increase the publication and general circulation of relevant research.

Our second annual conference will take place at Griffith University in Brisbane, Australia, on June 28-29 2013 under the conference theme of **'Global Capitalism in Asia and Oceania'.**

Workshops Topics will include:

- The transnational capitalist class in Asia, Australia, and Oceania.
- The so-called Asian century; potential winners and losers.
- Diverse forms of neo-liberalism in Asia.
- Transnational capital and the state.
- State repression and militarization.
- Financialisation and tax havens.
- The political economies of international education
- Global corporate networks intersecting with Asia and Australia.
- Capitalism, class and power relations in these regions.
- Workers in the Asia and global assembly lines.
- Social and political movements, protest and activisms.

To learn more about the conference and registration go to: http://netglobalcapitalism.wordpress.com or http://www.net4dem.org/mayglobal.

We invite all interested readers of the Newsletter for the World Economics Association to visit our web site and that of the Global Studies Association (http://net4dem.org/mayglobal) and hope to see many of you at the conference.

Jerry Harris, International Coordinating Committee

Unexpected externality: European Union and Candidacy

By Bulent Temel

As certified with the 2012 Nobel Peace Prize, the European Union (EU) is an ambitiously positive project in a continent with a long history of international strife. Experiences of the EU's oldest associate member, Turkey point to an unexpected externality that supplements the conventional benefits of the union: The road to the EU may be no less beneficial than actual membership. An examination of Turkey's progress during the historical trajectory of its EU negotiations reveals that the country's economic, social and political development accelerated during the period when the public and political interest in the EU was high, and slowed down afterwards.

Three pivotal years in the EU-Turkey relations allow an intertemporal comparison to examine this observation: 1999 when the EU leadership officially recognized Turkey as a candidate for full membership, 2004 when membership negotiations began, and 2009 when Turkish leadership's interest in the EU began to diminish publicly as a result of a frustratingly slow progress in the negotiations. Quantitative assessments by international organizations showed that improvements in income, economic stability and governance occurred visibly faster during the five-year period after 2004 compared to the five years before then. The country's recognition as a candidate to the EU in 1999 encouraged and empowered its political leadership to adopt long-term policies. A structural adjustment program that reformed the financial sector laid out a foundation to bring and sustain stability in Turkish economy. A number of resolutions passed the parliament with minimal opposition, reportedly due to weakened bureaucratic and political resistance as a result of the country's EU goal.

This remarkable performance invites a curious question: How differently would Turkey fare if it were a full member to the European Union? Because Turkey is not a member yet, answer to this question can at best be a counterfactual argument, albeit a suggestive one. Fortunately, 2004 was not a turning point only for Turkey. Ten countries were admitted to the union as full members the same year. With another stroke of luck, all of these countries were from Eastern Europe where the general level of development was comparable to that of Turkey. Let us assume that the EU experiences of these ten new member states represent a hypothetical membership experience of Turkey with a reasonable margin of error. Then their progress in five areas in which Turkey expects improvements from EU membership provide valuable data to compare with Turkey's actual progress in these areas over the same period. This analysis reveals that the scores in three of the five areas improved significantly faster in Turkey than in the new EU members: *Real average income, macroeconomic stability* and *democratic governance*. A fourth area, *unemployment*, remained unchanged at 10% level, but an unemployment rate that shows Turkey's large and rapidly growing (10 times the EU average) labor force in its denominator conceals an impressive performance in job creation. The fifth goal, *strengthening of national identity and direction*, may be compatible with full membership in the EU, but this belief is shared by a shrinking portion of Turkish society today.

To fully grasp the roots of the EU's impact on Turkey, one needs to take a look at Turkey's history from its onset in 1923 until today. Having emerged from the Ottoman Empire, modern Turkey was a difficult and rare experiment in transformation. Ottomans' autocratic and theocratic monarchy, war-based feudal economy, and uneducated public with a 10% literacy rate were transformed by Mustafa Kemal Atatürk into a secular and democratic state that supported a mixed market economy and a national education system. The new republic relied on capital formation and creation of an industrial base, and took European social democracy as a model of progress and development.

However, the country's founding principles (called *six arrows*, referring to commitments to republican democracy, nationalism, secularity, statist capitalism, populism, and reformism) began to be challenged as the Turkish nation went through its process of democratization. Significant events like the first multi-party election in 1950, military interventions in the political system in 1960, 1971 and 1980, and democratic sensitivities triggered by the Vietnam War of 1955-1975 paved the way for a search for justice and equality among various segments of the society. A violent movement that fought for recognition and autonomy of the country's Kurdish minority as a distinct nation emerged, and Islamists began to offer their worldview as a counter culture to the secular establishment in the 1970s. Manifested as an agenda to regain legal acceptance of Islamic outfits and politicians in public offices, religious demands spilled over to the secular area. Groups like Alewites, women and homosexuals have arisen in more recent times, pushing for improved civil and minority rights. Today, an increasingly authoritative and intolerant leadership influences public policies adopted by elected officials, the sense of nationalism has been shattered by the rise of Kurdish nationalism, and actions of the religious incumbent party ignite speculation about a theocratic threat to the secular order. Atatürk's mixed market economy that functioned under a regulatory welfare state gave way to a neoliberal order that treats heterogenous distribution of income and wealth as a bearable cost of economic expansion.

In this complex situation, the European Union's importance for Turkey increases to an unprecedented level. For Turkey to move forward in its democratization process without losing its progressive and social democratic character, it has to operate under the auspices of an institution that would provide checks and balances against revolutionary threats. Of the two such institutions that assumed that role in the past, bureacracy is rapidly giving its way to partisans of political Islam, and the military recognizes that its political intervention does more harm than good to the country. The military's appreciation of the correlation between political, economic and social stability, and its consequent refrainment from political action leaves the European Union as the only remaining sponsor of democratization process in Turkey.

A straightforward policy conclusion from the above analysis is this: For Turkey and the European Union to spend the next decade or two in the most mutually beneficial way possible, political leaders on both sides will have to maintain their enthusiasm for a future Turkish membership, and promote public policies to influence their constituents to remain constructively optimistic about it as well.

Fernando Gil International Prize 2013

Good news for economists who consider methodology an important part of their field:

the Fernando Gil International prize for the Philosophy of Science had its scope expanded to cover economics and the social sciences, along with mathematics, computer science, medicine, physics, chemistry and biology.

The Prize is worth 75,000 euros and is assigned every two years by an international jury, which as from this year includes an economist, together with experts in other fields, particularly philosophy of science.

The Prize, jointly launched by the Portuguese Foundation for Science and Technology and by the Calouste Gubelkian Foundation, intends to award a work of particular excellence in the domain of the philosophy of science, whether regarding general epistemological problems or particular scientific areas. The recipient of the Prize is requested to deliver an original public lecture that will be published by the Calouste Gubelkian Foundation and to conduct a program of specialized seminars for students and researchers in Lisbon on the occasion of the Prize ceremony.

Nominations for the 2013 Prize should be sent (not by the nominees) to
premio-filosofia@fernando-gil.org.pt
by January 15, 2013.
Further information is available at: http://fernando-gil.org.pt

Alessandro Roncaglia

A Critique of the Marginal Productivity Theory of Capital Income

By Fred Moseley

I have had two papers on the marginal productivity of capital published in recent issues of the *Real World Economic Review*. The first paper (Moseley, 2012a) argues that the marginal productivity theory of capital income has fundamental and insoluble logical problems. These include: (1) the marginal product of capital (or of labor) is not a legitimate concept, because output in goods-producing industries cannot be increased by adding one unit of capital while holding all other inputs constant (which the concept of marginal product requires), because raw material inputs must also be increased if output is to increase; (2) therefore, the derivation of the demand for capital (or for labor) is invalid because it is based on the illegitimate concept of the marginal product of capital; and (3) marginal productivity theory does not provide a macroeconomic theory of the return to capital because capital consists of many diverse types of buildings and equipment that cannot be meaningfully aggregated into a total quantity of capital for the economy as a whole (this impossibility also implies that the "aggregate production function" used widely in macroeconomic growth models is not a valid theoretical concept). There is an additional problem with the explanation of the return to capital.

The second paper (Moseley, 2012b) examines in particular Gregory Mankiw's presentations of marginal productivity theory in his best-selling intermediate textbook *Macroeconomics*. This part (1) shows that Mankiw does not even mention any of these well-known logical problems, and so uses his authority to persuade students of a lie (that the theory has no problems); and (2) dissects the many logical flaws in Mankiw's presentation.

Both papers conclude that we should challenge marginal productivity theory every chance we get, and we should teach and develop more promising alternative theories of the return to capital, especially Marx's theory of surplus-value.

Moseley, F. (2012a). A critique of the marginal productivity theory of the price of capital. *Real World Economic Review,* (59), 131-137. http://www.paecon.net/PAEReview/issue59/Moseley59.pdf

Moseley, F. (2012b). Mankiw's attempted resurrection of marginal productivity theory. *Real World Economic Review,* (61), 115-124. http://www.paecon.net/PAEReview/issue61/Moseley61.pdf

Interview with Geoffrey Hodgson

Geoffrey M. Hodgson is Research Professor in Business Studies at the University of Hertfordshire, UK. His books include From Pleasure Machines to Moral Communities (2013), Darwin's Conjecture (with Thorbjoern Knudsen, 2010), The Evolution of Institutional Economics (2004), and How Economics Forgot History (2001). He has published over 130 articles in academic journals and he is Editor in Chief of the Journal of Institutional Economics.

In this piece, following what is becoming a standard format for the WEA Newsletter, he answers four questions posed by Stuart Birks.

Q.1 What led you to become a critic of mainstream economics?

My undergraduate degree (awarded in 1968) was in mathematics and philosophy. But I also started reading texts in economics. I have always been critical of key parts of mainstream theory. I was inspired from the beginning by critical writers, including at first Karl Marx, John Maynard Keynes, Piero Sraffa and Joan Robinson. But I took mainstream economics seriously and I tried to understand its core arguments and concepts.

I did not see the problem with mainstream economic theory as primarily one of policy. I learned that the neoclassical framework was quite adaptable, and could lead to different policy conclusions. For example, Pigovian neoclassical exponents of 'market failure' supported substantial state intervention. But Chicago-style neoclassical economics were more in favour of free markets. Furthermore, neoclassical theorists such as Oskar Lange, Jon Elster and John Roemer proposed socialist policies.

The fundamental problems lay elsewhere. I can remember being concerned about basic assumptions in both micro and macro. Macroeconomics models around 1970 were very crude. I experimented with some models of my own and I discovered (what we would call now) chaotic effects. With non-linear equations it is possible that the model becomes so sensitive to initial conditions that it becomes unpredictable. Chaos theory had not yet become popular and I lacked the ideas and confidence to explore this further in formal terms. Instead I became enduringly sceptical of the possibility of using models to predict outcomes in economics.

My scepticism spread to heterodox as well as mainstream models. Some Post Keynesian economists – with important exceptions such as George Shackle – were also devoted to the task of prediction. From my naïve belief in the 1960s that prediction was the Holy Grail, by the mid-1970s I took the view that economic systems were generally too complex to forecast. Instead the primary task for economists was to understand how the economic system functioned. It was more about explanation than prediction. Mainstream macroeconomics is now much more sophisticated than it was in the 1970s, but it still tries to ape its own image of physics and focus on prediction.

Disenchantment with most mainstream and many non-mainstream models diverted me into microeconomics. From the beginning I felt uneasy about the mainstream assumption of utility-maximizing 'rational economic man'. One of my first concerns was that it seemed like an *ex post* rationalisation of behaviour, rather than its causal explanation. A remark by Joan Robinson in her *Economic Philosophy* (1964) impressed me. She wrote that utility was a concept of 'impregnable circularity; *utility* is the quality in commodities that makes individuals want to buy them, and the fact that individuals want to buy them shows that they have *utility*.'

But I looked further into her work and that of other Post Keynesians and found very few attempts to develop an alternative account of human motivation to replace textbook utility-maximization. The writings of Marx were also of relatively little help in this regard. Keynes had a few psychological insights; he used terms such as 'animal spirits', and emphasized the uncertain nature of much decision-making. This underlined the limits of formal modelling but it did not constitute an adequate alternative theory of human motivation. Although much in Post Keynesian economics is of value, and I still regard myself as a kind of Keynesian when it comes to macro issues, its failure to develop an adequate alternative micro led me in a different direction.

In the late 1970s I came across the work of Herbert Simon, who was awarded the Nobel Prize in Economics in 1978. I found his work engaging and important. He has remained an enduring influence. But his consideration of the social, cultural and institutional context of decision-making was underdeveloped. I thought that institutions were important, and I was looking for something more.

In the early 1980s I began reading the works of Thorstein Veblen and other original American institutionalists. Among the many attractive features of Veblen's writing were his critiques of utilitity maximisation and his use of alternative, Darwin-inspired psychological theories from William James and others. I also studied works in evolutionary economics by Richard Nelson and Sidney Winter, and new institutionalists such as Ronald Coase and Oliver Williamson. Also Friedrich Hayek's emphasis on problems of knowledge had an impact on my thinking. By the publication of my *Economics and Insti-*

tutions book in 1988 I regarded myself as an institutional and evolutionary economist.

I had reached this point by becoming a critic not only of mainstream economics but also of much non-mainstream thinking. I still think that heterodox economists have paid far too little attention to the task of providing an alternative and well-grounded theory of human motivation.

Q.2 Did you face much opposition from other economists?

Intellectual opposition is often a good thing. Science often progresses by putting new ideas under strong critical scrutiny. The ideas that survive have been tested in the crucible of informed criticism.

Much worse than opposition is silence. When I raised the problem of developing an alternative theory of human motivation in the late 1970s and early 1980s my heterodox friends were polite, but showed more interest in other things, such as capital theory controversies or macroeconomic modelling. Policy controversies got heightened, especially after the watershed elections to office of Margaret Thatcher in 1979 and Ronald Reagan in 1980. For many economists (including myself for a while) policy issues were a diversion from foundational theoretical tasks.

When I raised my criticisms of rational economic man with mainstream economists, their reaction was typically straightforward. The polite ones would simply say that my ideas were interesting, but that they were not economics. Economics, they alleged, was founded on the Robbins-style assumption of an individual chooser and utility-maximiser. If one chose to abandon this assumption, then one had to abandon economics. Take it or leave it. Go into sociology, or whatever.

By the 1990s it became more respectable for mainstream economists to challenge the assumption of utility-maximisation. But as Philip Larkin wrote in his poem ‘Annus Mirabilis’ about sex in the 1960s, this was ‘too late for me’. Furthermore, as mainstream economics became more tolerant of a few different assumptions, it narrowed in style and substance. It became increasingly interested in mathematical technique rather than real-world relevance. The only theory jobs in good departments of economics seemed to be in general equilibrium analysis, until the fashion quickly switched to game theory. Neither was my passion or forte.

By 1990 my problem was not that my ideas had met fierce opposition, but that they were not taken seriously by enough colleagues. I had a reasonable job in a lowly-ranked new university. But moving-on was increasingly difficult. In 1992 I gave up my professorial title and moved to an ordinary lectureship in the new business school at the University of Cambridge, with a mediocre salary. Doctrinally it offered a much more tolerant environment than any prominent department of economics. But after just over six years at Cambridge (and my shock discovery that its business school was not such a research-orientated institution as I had previously imagined), I moved to my current position. I was given a better salary and much more time to develop my research.

I can handle opposition. My career hurdles have been of a different nature. My struggle has been to find more time to develop, modify and strengthen my ideas. I have been exceptionally fortunate since 1999 in that I have been given this vital space and support from my university.

Q.3 Are there any practical applications of your work?

I would like to describe myself as an economic theorist, but that phrase has been hijacked by the mathematicians. Nevertheless, and notwithstanding my conceptual and philosophical orientation, I have always been concerned to develop theory that might eventually have real-world applications. But I do not believe that all research has to demonstrate immediate practical relevance, as many governments and funding agencies seem to think nowadays. If that were the case then few sciences would have made much progress since the eighteenth century.

As well as looking at fundamental problems of human motivation, and particularly in institutional contexts, I have been keen to help develop alternative, over-arching theoretical frameworks. I believe that these play a crucial role in the transition from one paradigm to another. For example, as Philip Mirowski has demonstrated in his 1989 book *More Heat than Light,* neoclassical economics was constituted by borrowing a conceptual framework with its formal content from late nineteenth-century physics. Physics envy is still prevalent in mainstream economics, exhibited by the enduring over-emphasis on building predictive models. For a long time I have been trying to help change the core paradigm, and this partly explains my interest in evolutionary ideas.

Theoretical paradigms – including neoclassical economics – operate at different levels. An over-arching conception of the world plays an omnipresent role, even if researchers don’t write about it much. Descending from this highest level, there is what the sociologist Robert Merton described as ‘middle-range theory’. This in my understanding means bridging the theoretical and the empirical. It does not mean testing everything in a theory: that in principle would be impossible. But it does mean using the theory to make claims that are open to empirical testing or scrutiny. The descent from high to middle-range theory typically involves the adoption of auxiliary assumptions that make key claims testable.

With the help of PhD students and others I have made some forays into middle-range theory. Some of us are trying to develop middle-range discourses that sit below more abstract work on the generalisation of Darwinian principles to cover socio-economic evolution. (The high theory is presented in *Darwin’s Conjecture* (2010), which I co-authored with Thorbjørn Knudsen.) For example, we are developing middle-range theories in order to understand the evolution of firms and industries. We add hypotheses concerning firm adaptation and selection, and these have been tested using survey data within the over-arching conceptual framework.

Other bits of my work are amenable to empirical testing. For example, my conception and emphasis on habit is similar to that of psychologists such as Wendy Wood in the United States. She and her colleagues have conducted some powerful experiments showing the role of habit.

From 1989 I published several articles on the institutional foundations of economic growth. They include econometric tests. In 2006 I published another empirical article on the transitional economies, addressing institutional determinants of post-1990 growth. Since 2000, rising stars like Daron Acemoglu and James Robinson have got similar empirical institutional work published in leading American mainstream journals. But they are much better econometricians and their work surpasses my earlier efforts.

Policy issues are also important. In my 2013 book *From Pleasure Machines to Moral Communities,* I address matters of policy, using an evolutionary approach incorporating moral components. With the backing of strong evidence from other researchers, I claim that economic agents are often morally motivated as well as self-interested. The non-utilitarian arguments in that book are applied to areas such as business management, corruption, the health sector, and environmental policy.

But I must also raise some qualms about policy debates. For half a century I have been in contact with economists like myself who are critical of the mainstream. It has always struck me that among the heterodox there has been an abundance of policy stances, but a famine of sufficiently viable alternative theory. Pronouncing on policy is too easy. We are all concerned about growing inequality, rising unemployment, job discrimination, poverty, underdevelopment and many other ills. Heterodox economists have done much good empirical work in these areas, but so too have mainstream economists.

One has to show how different theoretical approaches vary in robustness or lead to different policy outcomes. Many heterodox economists would claim to have done just that. For example, I recently attended a conference in Poland that included a few sessions on the great Marxist-Keynesian economist Michal Kalecki. One speaker developed a three-sector Kalecki-type macro-model and showed that if wages were increased then employment would not decrease. He then claimed that rising wages are not the cause of unemployment. But he had not demonstrated that. Instead he had shown that rising wages would not lead to unemployment *in his model,* but not necessarily in the real world. The big question concerning how one can claim that results from an artificial model apply to real-world circumstances was ignored by the speaker.

This illustrates a weakness of many attempts by heterodox economists to develop theoretical alternatives to inform policy. Mainstream economists can simply brush three-sector and other limited models aside, claiming (often rightly) that their own models are more sophisticated and can (say) accommodate far more economic agents. To shift modelling in a different direction one has to displace the mainstream paradigm. It is in this respect that the challenge for dissident economists is at its greatest, and where (so far) efforts have been weak or sparse.

Q.4 How do you see economics evolving?

In 1997 the late Mark Blaug pronounced in an article that 'modern economics is sick'. He argued that economics 'has increasingly become an intellectual game played for its own sake and not for its practical consequences for understanding the economic world. Economists have converted the subject into a sort of social mathematics in which analytical rigour is everything and practical relevance is nothing.' Three years earlier, but for different reasons, Paul Ormerod had published a bestselling book entitled *The Death of Economics.*

As the joke goes, old professors do not die, they simply lose their faculties. Economics is not dead, but (at least in university departments of economics) it has clearly lost its senses. The Great Crash of 2008 passed it by, regarded by many as an unfortunate blip that required relatively minor adjustments to its models.

The greatest world financial crisis since the 1930s jitters on, but even students of 'money and finance' are taught little about crucial debates on the nature of money (and its possible relation to state sovereignty) or about real-world banking and financial institutions.

In the half century that I have been involved with economics, the whole style and substance of the discipline has changed. In the 1970s economics in some senses was a more open discipline. Although narrow core assumptions were used to define the subject, it embraced quite different areas of discourse. While mathematical economics was on the rise, there were frequent discussions of the history of economic thought, economic history, philosophy and much else. A faculty member of a department of economics was still expected to have some knowledge of other disciplines. As Keynes wrote in 1924:

the master-economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher — in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of a man's nature or his institutions must lie entirely outside his regard.

This, for Keynes, was the lofty ideal, which he found expressed in Alfred Marshall and a few others. But while the rest of us will never rise so high, this ideal is a benchmark to measure our achievement. By these standards of inter-disciplinarity, economics has been on a downward slide at least since 1950.

Hence the problem with modern economics is not simply the dominance of mathematical technique. An impairment that it shares with other disciplines is of over-specialisation at the expense of synthesis and a strong, over-arching, inclusive discourse. We have now what Uskali Mäki describes as the 'new kiosk economics of everything'.

Specialisation may partly explain the aforementioned increase in tolerance concerning some basic assumptions. Behavioural economists do their thing and rational choice theorists sit close by and do theirs. This arrangement works as long as they have sufficient communality of aim and style. Most in the mainstream seem to agree on the foremost aim of prediction, and on model-building as the foremost means to that end.

Positive-feedback loops have worked their wicked way within the discipline. Unlike much ordinary discourse, mathematics is always right or wrong. So excellence in mathematics is used as the principal screening criterion in academic journals, faculty appointments and student enrolment. This leads to a discipline that is more mathematically inclined, and henceforth likely to enforce such criteria more stringently. And so it goes on, like the evolution of the peacock's tail. It has now lasted for a generation or two, and the economics professors of today bear little academic resemblance to their predecessors of the 1970s.

But I must emphasise that I am not against the use of mathematics in economics. My objections are to the types of mathematics that dominate, the way mathematics crowds out other modes of discourse, and its exclusive use as an ritualistic selection mechanism to determine the priesthood in our discipline.

Any undergraduate with an inkling of Marshall- or Keynes-like vision will be put off by the standard fare at all levels. Many courses in economic theory have become dry, mechanised and boring. They generate model-driven questions with yes/no answers, rather than training economists to grapple with messy, real-world complexity.

It is hard to see how this vicious circle can be broken. But an insistence on the complexity of economic phenomena, on the prevalence of uncertainty, and on the heterogeneity of agents is a vital first step. The standard post-Robbins view of economics, as being about optimal decisions facing well-defined choices with adequate information, has to go. The real world, with its complexity, uncertainty and information scarcity, has to be brought to bear on economic reasoning.

Another vital recommendation is for greater dialogue with other disciplines. In particular, viable rationales for the division between economics and sociology have now disappeared. Yet rapport between these two disciplines remains rare. Sociology can teach economists a lot about how financial and other institutions work. Similar remarks apply to psychology, philosophy, history and other subjects. Economists have often treated other disciplines as areas for 'imperialist' invasion, in the sense of attempting to show that neoclassical assumptions can be imposed on the chosen territory of the discipline. But especially after the financial crash, economists should have more humility. Instead of merely imposing their ideas on other territories, economists should learn from other disciplines.

Models have to be put in their place alongside conceptual, philosophical, historical and other considerations. We need to be able to criticise assumptions and discriminate between models. Given that decisive empirical tests are rarely possible, other factors have to be taken into account when evaluating different models. Broadly-trained judgement is vital.

I have no more than a glimmer of hope that such measures will take hold, and thereby cure economics of its sickness. Maybe for a many years the more broad-minded economist will have to retreat to havens in business schools, economic sociology, economic geography, innovation studies and elsewhere.

Perhaps that is not so remarkable. In 2012 the BBC screened an interesting series by Stephanie Flanders on three of the greatest-ever economists – Karl Marx, John Maynard Keynes and Friedrich Hayek. Significantly, Marx and Keynes were never employed in a department of economics, and Hayek spent most of his adult life in other quarters. Economics has always had a life outside departments of economics. Perhaps it is there that it will be reborn.

Acknowledgements

The interviewee thanks Bruce Caldwell, Denise Dollimore, Francesca Gagliardi, Stephen Herman, Thorbjörn Knudsen, Uskali Mäki and Deirdre McCloskey, for useful feedback on earlier draft answers.

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The World Economics Association Newsletter is published in the UK by the World Economics Association.