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# World Economics Association Newsletter

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:



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## WEA Pedagogy Blog

...welcomes posts about your experiences and suggestions on teaching and learning economics, with a strong focus on methods leading to deep understanding of current real world economic issues.

## WEA National Chapters

Get involved!
Is your country listed?
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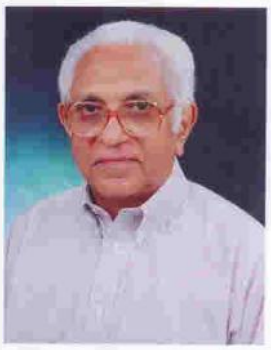
# Abstract and substantive reasoning for real life economics

By C T Kurien



I am greatly encouraged by the growing eagerness seen in many parts of the world to move out of arid academic economics into engagement with real life economic issues. However, at times I get the impression that the quest is for a more 'realistic' economic theory to deal with real life economic problems. In my thinking academic economics as it is practised at least in the English-speaking world and real life economics are two substantially different entities. Here I shall concentrate on what I consider to be the characteristics of real life economics.

First and foremost, real life economics is professedly part of the larger social enquiry; it belongs to what in earlier days was considered to be 'political economy'. To put it differently, it is not a mere intellectual exercise to solve problems posed by other academics, and in that sense belonging to a realm largely, and to some extent deliberately, isolated from day to day lives of the vast majority of human beings. With rare exceptions academic economics has been setting up a universe of its own, a universe of discourse, where experts speak to other experts. Real life economics belongs to the realm of ordinary human beings and their day to day experiences.

Secondly, therefore, real life economics is oriented towards finding solutions to problems which people experience in their lives -- poverty, unemployment, increasing disparities of income and wealth. The objectives in medicine and in economics are very similar: to cure disease and contribute to healthy bodies in the former; to solve problems and improve the condition of the 'body politic' in the latter. The 'body politic' is a more complex entity, though, and the economist who deals with only a segment of it has a harder time in getting to know its physiology. Hence professional training certainly has its place in economics. However, the professional economist must also be a practitioner as in the field of medicine. In my *Rethinking Economics* (1996) after indicating that practical knowledge is both the beginning and end of economic knowledge, I went on to say: "As the professional discourse grows, it will have a tendency to become completely distanced from where it started… [But] refined economic language will become sterile unless it is again linked to practical knowledge. If the two are linked, the scientific knowledge of economics has the means of renewing itself. It also has the possibility of lifting practical knowledge to a higher level so that the understanding of all members of society can become clearer and more authentic. The professional economist, then, has a twofold responsibility to contribute to the refinement and renewal of the language of the profession, and to harness the knowledge and insights of economic science to enrich the general awareness of the real-life economy" (1996, pp.250-251).

When I was teaching undergraduate classes I formulated three questions to probe the Indian economy: "Who gets What?", "Who does What?" and "Who owns What?" The sequence is not particularly significant, but a moment of reflection will show that the *causal* sequence is the reverse, at least in a predominantly agricultural economy such as India where the ownership of land will largely decide what people do and what they earn.

Ownership of resources as well as the market as an institution prove to be basic to economic analysis. Here one can see two major differences between conventional economics and real life economics. Identifying 'conventional economics' with Neoclassical economic theory, one may say first that ownership does not figure at all (or at least not significantly), and while 'market' is central it is just logic of a certain kind of market process, not markets as they actually function.. Second, the concern is with a priori logic based on untested and untestable premises, rather than on actually functioning markets in real life situations.

An important aspect in real life economics is the role of reasoning. Factual information, of course, is important, crucial, in real life economics but it is not confined to mere empiricism. It is a matter of reasoning as well. There is a common association of reasoning with abstraction. In ***Wealth and Illfare*** (2012) I used as an example the familiar riddle: "Ten birds are perched on the branch of a tree. A hunter comes and shoots down one of them. How many are left on the branch?" If one goes by the (abstract) logic of counting the answer is: "Nine". Another possible and valid answer is: "None". The former reflects **abstract reasoning** ("Ten minus one is nine, no matter what you are counting"); the latter comes from the knowledge of the behaviour of birds. It is **substantive reasoning** or logic.

It is worth noting that 'classical' writers in economics, Adam Smith, David Ricardo, Karl Marx et al, whose 'theories' came to be widely celebrated later on were essentially concerned with real life issues of their day, but they were also using their reasoning power to make sense of what they were dealing with. Theories were culled out of their writings much later. I would classify the classical writers as "substantivists" who derived generalizations from their descriptive material. This procedure is not only a feature of the science of economics in its early days. Keynes in his *General Theory*, considered to be a modern classic in economics, adopted the same procedure. He was concerned about and reflecting on what was in the first half of the 1930s one of the most acute practical problems, that of massive unemployment, for which the then prevailing theoretical answer was to reduce wages. It was this real life economic problem that led him to challenge what was then orthodox theory and to put forward his more general theory.

In resorting to substantive reasoning or logic as the method of enquiry, contemporary real life economists

are following the classical tradition, countering what I consider to be the Neoclassical aberration.

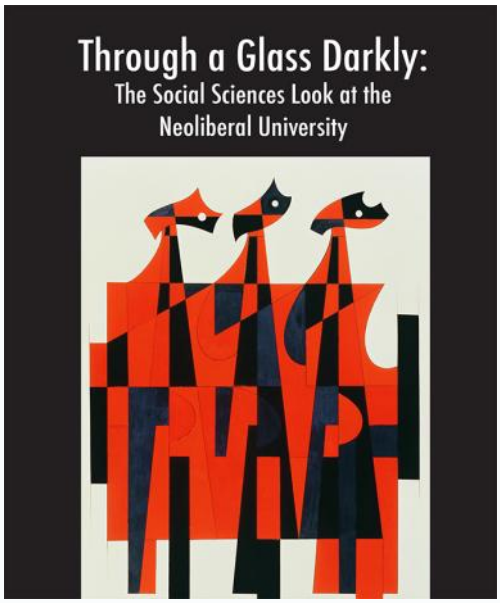
Historically, what is now commonly referred to as Neoclassical economics was part of the natural evolution of an emerging field of enquiry. In a sense it was Ricardo, usually considered to be one of the classical economists, who paved the way for the development of neoclassical economics. It was he who started the tradition of reasoning from *a priori* postulates and logical refutation rather than empirical verification. He also brought valuation as the principal theme in political economy which subsequent writers like Menger and Jevons accepted as the 'general principle' of economics just as mechanics was the general principle of the physical sciences. Walras, the French engineer turned economist made the deliberate attempt to convert economics into a 'physico-mathematical science' and largely succeeded in it too. In the process utility emerged as the central theme of economics and the consumer as the principal player whose aim was accepted as the maximization of utility. The market was recognized as the mechanism supplying the goods that the consumers wanted and production was simply the means to ensure that the goods that were required were made available. Calculations at the margin ensured maximization of whatever that was attempted to be maximized. The revolutionary significance of the procedure was that (as Schumpeter observed) the whole organon of pure economics found itself unified in the light of a single principle.

That was a triumph of reasoning or logic – of the formal kind. Formalism as such cannot be faulted but the question is its connection with real life. The claim to universality that the competitive model frequently makes and its votaries consider to mean validity and applicability everywhere and under all circumstances is simply the *universality of formal logic*. This can only really be taken to mean that if certain specified conditions obtain, certain derivations will follow. Hence the possibility of empirical verification of postulated initial conditions is crucial in theoretical expositions.

There is fairly global co-operation of academia, business and governance covering a wide range of theories, but no other theoretical system in economics has as much fecundity for mischief as neoclassical economics. That is why a major mission of real life economics has to be to expose the true nature of that branch of economics that continues to dominate the academic sphere of at least the English speaking parts of the world.

Kurien C T (1996) *Rethinking Economics*, New Delhi,

## The Social Sciences Look at the Neoliberal University




**Through a Glass Darkly:**
**The Social Sciences Look at the Neoliberal University**
Edited by Margaret Thornton

Published December 2014

This collection of essays arose from a workshop held in Canberra in 2013 under the auspices of the Academy of Social Sciences in Australia to consider the impact of the encroachment of the market on public universities. While the UK tripled fees in 2013 and determined that the teaching of the social sciences and the humanities would no longer be publicly funded, it was feared that Australia would go further and deregulate fees altogether.

In the best tradition of the social sciences, the contributors have assumed the role of critic and conscience of society to present penetrating analyses of the ramifications of the corporatisation of the university as neoliberalism continues to occupy the ascendant position in the political firmament. The *dramatis personae* in these analyses are students, academics, managers and political mandarins with the gendered character of corporatisation an important sub-theme.

**Download via: http://press.anu.edu.au/titles/through-a-glass-darkly/**

*"Much as they preach the virtues of competition, it seems that the last thing some academic economists want is competition in the area of ideas."*

Terry Peach, Mainstream Misconceptions

From the web site of the Post-Crash Economics Society at the University of Manchester

# Three goals for pedagogical change

By Asad Zaman

The failure of economists to foresee The Global Financial Crisis of 2007 led to widespread realization of the need for change. Nonetheless, very little change has actually taken place, partly because of lack of consensus on what needs changing. The object of this note is to propose three directions for change which should be put on the agenda actively.

One of the key insights of Amartya Sen is that famines result not from "scarcity," but rather from lack of "entitlement" to food. That is, social norms about who deserves to get what determine the economic outcomes. Modern economic theory pretends to objectivity, but is actually a concealed discourse about entitlements. Our first goal for change is to make explicit the normative notions hidden within the framework of modern economic theory.

The idea that economics should be a "science" leads to formulation of economic laws stripped from their historical and socio-cultural contexts. In fact, economic theories are responses to economic problems of crises. In a series of lectures on macro-economics, I have shown how putting economic theories within their historical context yields unique insights not available within current methodology – see Mini-course on Macroeconomics. Thus the second goal for pedagogical reform is to put economic theories within their historical context, and limit their scope.

Finally, the ideology that markets lead to good outcomes needs to be battled vigorously. In fact, as Polanyi showed in the Great Transformation, market societies are extremely harmful to natural social values, and destroy social and environmental capital. Thus markets are extraordinarily bad ways to organize economic affairs from the point of view of human welfare. Thus, the third pedagogical goal is to debunk the idea of the "invisible hand" – that markets promote welfare and are efficient.

**1: First Obstacle to Formulating a GOAL for improvement: Normative Positive Distinction**

In my paper entitled "The normative foundations of scarcity," published in issue 61 of Real World Economics Review (download pdf) I have shown that even what is currently taken to be the fundamental defining concept of economics is deeply normative. This is an application of an argument of Hilary Putnam, who showed that facts and values can be entangled in such a way that it is impossible to separate the two. Only after we come to the understanding that economics is not an objective and value-free scientific endeavour does it become possible to formulate a goal for teaching and studying economics.

As a second important example, note that there is no such thing as an aggregate production function – for detailed empirical evidence, see Banerjee, Banerjee and Duflo (2004). However use of this fictitious function allows us to say that the laborers earn their marginal product while the capitalist earn theirs – that is, it provide a justification for the payments to capital. This is exactly the bone of contention with the Marxists who argue that only labor produces value, and hence the capitalists do not deserve any returns on their capital. Again this is a concealed normative debate about entitlements – do capitalists deserve return on money (interest payments) or do laborers deserve a bigger share of the pie?

ACTION PLAN 1: To remove this obstacle, we need to show that norms are everywhere involved in current economic thinking. An excellent textbook for this purpose is Hausman and McPherson (2006). We should try to make this text the basis of a compulsory course everywhere that we can. Where we cannot change the syllabus, we should introduce this as an optional course and popularize it among teachers and students. In addition, we should learn how to bring out and highlight normative assumptions hidden within the framework of the economic theories we teach. My paper referenced earlier makes a start on this aspect. This will allow us to bring normative concepts into discussion in virtually all economics courses.

**2: Second Obstacle to Formulating a GOAL for change: A-historical Methodology**

A second obstacle to making changes arises from the related idea that we should use scientific methodology in economics. What this means is that we should look for universal economic laws which are invariant across time and space. What kind of economic laws can we find that apply equally in modern Australia, ancient Maya, colonial India, and nineteenth century Britain? In fact there are none. Nonetheless, the methodology prevents economists from studying history, which is the key to understanding economics. See Hodgson (2001) for a detailed argument. I have made an entirely different argument but for similar purposes in my paper: Deification of Science and its Disastrous Consequences (Zaman, 2013b) – this is a rather complex argument, and I am working on simplifying it to make it more accessible.

I have found that discussions of methodology are perplexing to many audiences. Furthermore, scientific methodology is such a sacred cow that to suggest a different methodology for economics evokes gasps of horror. The simple solution is to just re-introduce history into the economics syllabus, both in separate courses, and also as additional material in conventional courses. One must differentiate between history of economic thought and a global history which describes economic events of importance. It is the latter that is of importance to us. As currently taught, history of economic thought just supports the conventional framework of economic thought, though this can be changed and modified.

ACTION PLAN 2: Personally, I learnt more economics

from Naomi Klein's book The Shock Doctrine: The Rise of Disaster Capitalism (Klein, 2008) than I did from the four year Ph.D. program at Stanford. Incorporating and teaching major economic events of the twentieth century in their historical aspects would substantially enrich a conventional economics education based entirely on mathematics and theory. Many books can be of substantial value in this effort. An excellent book which shows how to merge history with economics of trade is *Power and Plenty: Trade, War, and the World Economy in the Second Millennium* (Findlay & O'Rourke, 2007). For teaching about development, there is currently no alternative to *Global Rift The Third World Comes of Age* (Stavrianos, 1981). Here work is needed in terms of simplifying the materials, bringing out the connections with conventional development theories, and making it available in textbook format, as a basis for a course in an economics department. I am sure that there are many other books of history which would be of great use in teaching Real World economics. I would very much appreciate hearing from readers who have made progress in these directions.

**3: Third Obstacle: Free Markets generate best possible economic outcomes.**

From conversations with other first year graduates in the Ph.D. Economics program at Stanford, I remember that many of us were idealists and hoped to solve the economic problems facing human beings. However, we were trained into thinking that competitive markets self-regulate to give optimal outcomes, and all we need to do is remove obstacles to perfect competition. This idea, encapsulated in the "Invisible Hand", prevents efforts for positive change by suggesting that they are unnecessary. All we need to do is to allow the free workings of the market and excellent economic outcomes will automatically result. It was this delusion that led to disastrous results in Russia when Jeffrey Sachs implemented "Shock Therapy" – remove all governmental support institutions, and wait for free markets to create economic prosperity.

ACTION PLAN 3: Because of its crucial importance, I have written two papers on the topic which summarize the failings of the invisible hand philosophy. The easier and more accessible one is entitled "Failures of the Invisible Hand". The somewhat more complex paper has been published as Zaman (2013a). Both of these papers can be downloaded from my SSRN webpage: (http://ssrn.com/author=289526). A lot more work is needed to counter the myth of self-regulating markets, and these papers are just pointers to the literature. Again this material needs to be incorporated into courses, though this will be difficult to do since it is directly in conflict with what is currently being taught. Suggestions for how to accomplish this would be most welcome.

**SUMMARY:** As discussed, there is a huge amount of work necessary to reform the economics curriculum to make it people friendly, instead of capital friendly. Three necessary initial steps have been outlined above. There are many other ways of proceeding. These issues can be discussed further on the WEA Pedagogy Blog. The purpose of this blog is to initiate a discussion on how to make pedagogical changes for improved economic outcomes.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## Meme Wars

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Part of their "Kick It Over" campaign, a "battle for the soul of economics"

# 'New Economic Thinking - A better way forward!'

*In memoriam Frederik S. Lee (1949 – 2014)*

**2nd World Keynes Conference**
**Pamukkale University, Denizli/Turkey**
**09.- 13. September 2015**

**Call for papers**

'Mainstream economics is in disarray' – so much the economics discipline agrees on. It failed to foresee the recent World Financial Crisis and now proposes an economic policy that any proponent of economics as a serious science must be deterred from.
Though science and common sense would suggest that this moment would belong to those, such as the heterodox and the pluralists, who have long criticized mainstream economics and the monistic approach to the discipline, neither 'empirical anomalies' nor deductive weaknesses have ever caused paradigmatic shifts or made economics more pluralistic. Mainstream economics is simply too solidly entrenched politically and alternatives such as Marxian, Post Keynesian or Social economics, are too little understood. The minor axiomatic variations within mainstream economics are mistaken for the much greater axiomatic and heuristic variations between mainstream and competing paradigms.
**The 2nd World Keynes Conference will address these issues. It encourages the presentation of theoretical alternatives in the following areas or others they believe are related to the issues outlined above:**
- *Stabilizing an unstable economy*
- *Macroeconomics of financial market regulation*
- *Inequality, growth and instability*
- *Macroeconomics of sustainable growth*
- *International economic governance*
- *the changing dynamics of international competition*
- *Growth in a multipolar economy*
- *The changing nature of capitalism*

**The Conference also welcomes inquiries into the dominance of mainstream economics:**
- *Political economy of mainstream dominance*
- *Plural economics and the market society*
- *The strange survival of mainstream economics*
- *The theoretical challenge of emerging economies*

**in contesting mainstream variations:**
- *Mainstream dissenters and heterodox economics – a promising alliance?*
- *Complexity economics – mainstream, heterodox or what?*
- *Should we distinguish between mainstream, dissenter and heterodox?*

**and in focusing on institutional arrangements in the economic field:**
- *How to change the teaching of economics in economics departments*
- *Evaluation systems and the future of economics*
- *Sponsoring science – a chance for 'New Economic Thinking'?*
- *Varieties of higher education systems – anything to learn from comparison?*
- *Can there be economic pluralism beyond US monism?*

Although the conference bears the name of John Maynard Keynes, approaches inspired by other economists such as David Ricardo, Karl Marx, Thorstein Veblen, Michal Kalecki, Hyman Minsky, Joan Robinson, Piero Sraffa, Karl Polanyi or Wynne Godley are welcome – the approach taken is one of in- not ex-clusion.
Finally, it should be mentioned that papers from all theoretical perspectives are welcome: Microeconomy; Macroeconomy; Political economy; International Economy; Economic Sociology.

**Abstract Submissions**
To submit a proposal please send an abstract of about 400 words for a paper and/or a proposal of about 600 words for a session, together with the abstracts of the session papers, no later than **March 31, 2015**. Please include the title of the session or the paper, the authors' names and institutional affiliations, and contact information in the form of an e-mail address for the corresponding author.
Submissions of Abstract Proposals and Conference Registration should be made through the Conference Webpage at http://keynes.pau.edu.tr/ or sent to: Prof. Arne Heise at arne.heise@wiso.uni-hamburg.de. The subject line should read WKC Denizli 2015.

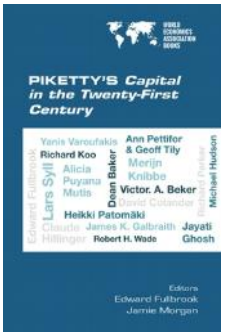
**Keynote Speakers** (to be confirmed)
Prof. **Bruno S. Frey**, University of Zürich and Zepplin University/ Germany (Talk: 'The rise and fall of Political Economy'); Prof. **Philip Mirowski**, Notre Dame University / USA, Prof. **Deidre McCloskey**, University of Illinois/ USA

**Organising Committee:** Prof. Dr. Arne Heise: Arne.Heise@wiso.uni-hamburg.de; Prof. Dr. Celal Kücüker: ckucuker@pau.edu.tr; Prof. Dr. I. Hakan Yetkiner: Hakan.Yetkiner@ieu.edu.tr

**Important Dates**
March 31, 2015 - Deadline for Abstract Submission
April, 2015 - Notification of Accepted Abstracts
June 15, 2015 - Conference Registration Deadline
July 15, 2015 - Deadline for Submitting Full Papers
September 9, 2015 - Opening Plenary Session and Reception

# Two books from the WEA

## Piketty's *Capital in the Twenty-First Century* *Edward Fullbrook and Jamie Morgan, eds*




Thomas Piketty's book *Capital in the Twenty-First Century* has already attracted more serious attention than any economics book published in the last 75 years. This collection of 17 essays by some of the world's most prominent economists explores Piketty's book in depth and from various vantage points. Here is what economists around the world are already saying about this book.

"Marx's *Capital* is strong on theory but, its detractors allege, weak on data. In a dialectic worthy of Hegel himself, the critics assembled here argue that Piketty's *Capital* stands opposite to Marx's, as strong on data but weak on theory. This combination - plus its exquisite timing - explains its critical acclaim. The juxtaposition of economic stagnation and obscene inequality in the aftermath of the financial crisis made it impossible for mainstream economists to continue ignoring inequality, let alone applauding it as they have done for so long. Piketty made it possible for them to acknowledge it without abandoning their comforting but false mainstream theories of capitalism. The authors in this volume applaud Piketty for his contribution to empirical knowledge, but reject his views on how this inequality came about. The true Capital for the 21st century is still yet to be written." **Steve Keen**, *Kingston University, London*

"Neoclassical economics spawned a utopian belief in capitalism with unregulated market forces. Thomas Piketty's empirical analysis has dealt a fatal blow to that belief by highlighting the recent huge redistributions of income and wealth to the ultra-rich. This raises a fundamental question for people around the world: how do we achieve a better world through economic policies? This global collection addresses that question and explores theoretical explanations for Piketty's empirical findings." **Ping Chen**, *Fudan University and Peking University, China*

"Are the theoretical explanations proposed by Thomas Piketty of the rising inequalities valid? What is the meaning of his first and second "laws" of capitalism? This book is indispensable for anyone seeking answers to these questions." **Andre Orlean**, *Ecole des Hautes Etudes en Sciences Sociales, Paris*

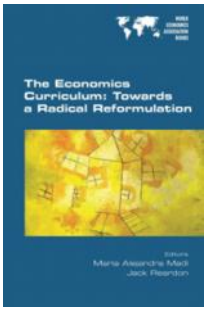
"By examining Thomas Piketty's *Capital in the Twenty-First Century* from different angles, the 18 contributors to this invaluable book add enormously to our understanding of inequality and of policy options for reducing it. They point to the lack of a distinction between rentier income and earned income, to the severe limits of marginal productivity theory that Piketty employs and to the utopian nature of Piketty's only suggested remedy." **Norbert Haering**, *Economics Editor, Handelsblatt, Germany*

"Piketty's book *Capital in the Twenty-First Century* served the cause of drawing the world's attention to inequality under capitalism in the long haul, based on a fresh and innovative look at new evidence. This book serves that cause even better by focusing on the inadequacies of Piketty's analysis of the processes and mechanisms leading to that inequality, and, therefore, on what needs to be done to address it." **C. P. Chandrasekhar**, *Jawaharlal Nehru University, New Delhi*

"Thomas Piketty's *Capital in the Twenty-First Century* was the publishing sensation of 2104, focussing the world's attention on the huge and continuing growth in inequality that poses a serious economic, political and social threat to us all. In this important new book, 18 economists from Europe, North America and Asia offer sympathetic but critical appraisals of Piketty's theoretical framework, his empirical analysis and his radical policy proposals. This is not the last word on Piketty - whatever could be? - but it is indispensable reading for everyone who is interested in one of the most important challenges of our time." **John King**, *La Trobe University, Australia*

**Buy now: Amazon US $18.00 – Amazon UK £12.50 – Amazon.de €20.50 – Amazon.fr €16.74**

## The Economics Curriculum: Towards a Radical Reformulation *Maria Alejandra Madi and Jack Reardon, eds*




This World Economics Association (WEA) volume - edited by Maria Alejandra Madi and Jack Reardon and supported throughout by Grazia Ietto-Gillies - originated with a successful WEA online conference. The volume has been conceived with current and future economics students in mind: they will be the economists of the future.

One of the main ideas underlining the book is that "being an economist" in the XXI century requires a radical change in the training of economists and such change requires a global effort. A new economics curriculum is needed in order to improve the understanding of the deep interactions between economics and the political forces and the historical processes of social change. The need for trans-disciplinary and interdisciplinary work is highlighted.

Discussions include the following. Main critiques of current practices on theory, methods and structures. Current gaps in the economics curriculum. What should economics graduates know? The contributors are: Nicola Acocella, Sheila Dow, David Hemenway, Arturo Hermann, Grazia Ietto-Gillies, Maria Alejandra Madi, Lars P&aaring;lsson Syll, Constantine Passaris, Paul Ormerod, Jack Reardon, Alessando Roncaglia, Asad Zaman.

**We hope the volume will stimulate further debate by both students and professional economists - whether academics or not - on how to progress towards an economics curriculum fit for the XXI century.**

**Buy now: Amazon US $17.10 - Amazon UK £ 12.00 - Amazon.de €19.50 - Amazon.it €18.95**

# Textbook commentary—Model building in economics

*A major concern about much mainstream economics is its portrayal of models as if they describe the real world. This can be particularly confusing for students who try to reconcile what they are taught with what they actually observe. It confuses further when students see increasingly complex models where each one is equally claimed to "explain" real events. Many years ago this was an integral part of introductory economics courses, with models being explicitly presented and their assumptions listed. This is no longer standard practice. One commentary has been written with the aim of helping students to interpret textbook material by understanding the process of model development. Here is the text. It can also be found on the Textbook Commentaries Project web site at: http://www.worldeconomicsassociation.org/commentaries/birks-model-building*

Many economics courses and textbooks focus very heavily on models as representations of the economic phenomena under investigation. These could be considered as analogies for the real world, alternative representations which may be similar, in some respects, to the real world.

An understanding of the process of model development can be helpful for understanding the material, especially when the texts or courses do not make the process explicit. Consider the following brief outline:

1. A model in economics is constructed by specifying selected variables, some of which are **exogenous** and others which are **endogenous**.
2. The values of **exogenous** variables are set outside the model. They are not explained by the model, so their values are treated a 'given'.
3. The values of **endogenous** variables are set within the model according to specified relationships with the other variables, both endogenous and exogenous.
4. Note that the exogeneity of some variables is a feature of the model, not of the variables themselves. Policy variables can be included in this category, with their values set by policy makers.
5. Some exogenous variables are not even explicitly mentioned. Instead, you may see the term, ***'ceteris paribus'***, a Latin expression meaning, 'everything else staying the same'. In other words, all omitted variables are assumed to be constant. Of course, they may not be constant in reality, but we assume them to be constant in the model so as to separate out the effects of the variables of interest (this might be unrealistic, in which case the model could give misleading results).
6. Note also that the term 'exogenous preferences' in the context of model construction does not mean that preferences are fixed. It just means that they are not determined within the model. Anything that might cause preferences to change (such as advertising) is beyond the scope of the model.
7. Similarly short- and long-run in relation to models are not issues of time, they relate to assumptions as to what can vary. This can be clearly seen in the theory of the firm. It is for reasons such as this that it is important to understand the process of model building and the nature of models.
8. In the initial stages, a model could be quite basic and unrealistic. A basic model 'explains' very little. It commonly has few endogenous variables.
9. An economist might use this as a starting point, attempting to understand its characteristics.
   **For a microeconomics example**, consider a supply and demand model where quantities supplied and demanded depend on price alone. All other possible variables are assumed to be constant (the *ceteris paribus* assumption) or irrelevant to the relationships, but a general structure is established, including the concept of equilibrium, along with questions of its existence, uniqueness and stability. The *ceteris paribus* assumption can then be relaxed. Additional variables (consumers' incomes, prices of other goods, a sales tax) can be introduced and their effects considered. Their determinants can then be included also, or the functional relationships made more complex.
   **For a macroeconomics example**, consider a simple circular flow diagram with no leakages or injections. Then add savings as a withdrawal and investment as an injection. Also add a government sector with taxation as a withdrawal and government expenditure on goods and services as an injection. Add government transfer payments as an additional injection (or as negative taxes). Bring in international trade with expenditure on imports as a withdrawal and income from exports as an injection. So far the interest rate and price level are assumed constant (as exogenous variables, perhaps not even mentioned). Allow the interest rate to vary, considering its effects on investment, perhaps other aspects of expenditure, maybe international capital movements, balance of payments and exchange rates. Add a financial sector to give some explanation of interest rate determination. These are the sorts of steps you will see in a standard course.
10. As the models develop, they get more involved, giving some possible explanations for more and more phenomena. The explanations are all limited by the dimensions and specification of the model, although it may be hoped that they gradually come to more closely resemble the real world.
11. Where models are intended to aid in policy making, the design will depend in part on the policy variables be-

ing considered. A Reserve Bank will focus on monetary variables, interest rates and reserve ratios, for example, whereas Treasury analysts would be more concerned about the effects of fiscal variables.

12. One book which goes into some detail on the nature of models in economics is Morgan (2012).
13. As a word of caution, some economists (Lawson, 1997, 2003) argue that these models represent 'closed' systems, whereas the real world is a 'open system', so the models can never be realistic.

It is important to consider the constraints of a model, including its simplifying assumptions and additional aspects to be considered in the real world. These can be thought of in terms of the nature of framing and the processes that may be followed when analysing issues. This perspective implicitly conveys the limited, partial nature of any approach and hence the possibility of numerous, similarly limited, alternatives.

There is a benefit from seeing the material this way, even for those who wish only to learn the basic textbook material. It is clear that the findings relate to abstract models. They do not provide definitive representations of real world phenomena. The approach has the added advantage that it helps to build up critical skills and to see processes whereby issues can be analysed, along with the limitations of those processes.

Lawson, T. (1997). *Economics and reality*. London: Routledge.
Lawson, T. (2003). *Reorienting economics*. London: Routledge.
Morgan, M. S. (2012). *The World in the Model: How Economists Work and Think*. Cambridge: Cambridge University Press.

**Visit the Textbook Commentaries Project web platform at:**
**http://www.worldeconomicsassociation.org/textbook-commentaries**

## Conceptual problems in mainstream economics

In this quote, **Geoffrey Hodgson** describes some concerns about the ability of mainstream economics to describe the real world.

*"I am of the firm opinion that the conceptual apparatus of much of mainstream economic theory is ill-suited to the task of both understanding our present condition and of envisioning a viable future. In particular, mainstream economics has become increasingly narrow and formalistic, unable even to grasp the institutional and cultural essentials of the market system that many of its exponents propound.*

*These limitations become even more acute in any analytical discourse concerning any feasible future alternative to the existing socio-economic system. In pursuing a highly abstract analysis based on supposedly universal presuppositions, mainstream economics neglects institutional specificities and cultural variations, even in the existing range of economies. With its focus on equilibrium outcomes, it neglects structural transformation and ongoing dynamic change. Yet without adequate analytical tools to understand and distinguish socio-economic systems, we cannot hope to achieve anything more than the most superficial consideration of future opportunities.*

*In order to understand the present and outline the possibilities for the future, we must look beyond the narrow formalisms and equilibrium-oriented theorising of mainstream economics."*

[From pp. xxvi-xxvii of Hodgson, G. M. (1999). *Economics and Utopia: why the learning economy is not the end of history*, London ; New York: Routledge.]

Similar concerns were debated more that 30 years earlier, but clearly have not been 'resolved'. **Axel Leijonhufvud** discussed some of the issues and attempts to address them in a book published in 1966. here is an extract where he considers market adjustment and the 'period solution' (short run, long run, etc.):

*"The common sense observation that price can be altered more easily than the rate of output, which in turn can be altered faster than the size of plant, has been purified into the abstract assumptions that price reacts* infinitely *fast relative to output, and output relative to capital stock. Two steps are really involved here; the first is the assumption that prices do, in fact, adjust more rapidly than output in response to a given disturbance; the second is the judgment that the essential elements of the process can be adequately analyzed by the comparative static method."*

[From pp.51-52 of Leijonhufvud, A. (1968). *On Keynesian economics and the economics of Keynes*, New York: Oxford University]

## INET Young Scholars initiative Workshops

INET's Young Scholars Initiative (YSI) will be holding a series of workshops from February to May 2015. The workshops target PhD students and young researchers and consist of mini-courses covering topics and methods that are overlooked in the conventional economics curriculum. They also feature student presentation sessions, which give young scholars the opportunity to present and discuss their research in a collaborative environment.

**YSI Workshop NYC**
*February 24-26, 2015*
The Monetary Circuit, the Solvency Rule, and the Modern Financialization Era
Giuseppe Fontana and Malcolm Sawyer, Leeds University Business School
Model Complexity and Model Selection in Time Series Econometrics
Cosma Shalizi, Carnegie Mellon University
More info and registration details here:
http://ineteconomics.org/ysi/events/nyc-workshop-2015/

**YSI Workshop Paris @ 2015 INET Annual Conference**
*April 6-10, 2015*
The Economics of Inequality
Facundo Alveredo, CONICET and Paris School of Economics
Post-Keynesian Economics
Marc Lavoie, University of Ottawa
More info and application details here:
http://ineteconomics.org/ysi/events/paris-workshop-2015-annual-conference

**YSI Workshop Rome @ 2015 ESHET Conference**
*May 12-13, 2015*
Economic Stagnation: Causes and Way Out. A View from the History of Economic Analysis
Heinz Kurz, University of Graz
Money and General Equilibrium: An Analytical History of an Unsolvable Question
Pascal Bridel, University of Lausanne - Centre Walras-Pareto
More info and application details here:
http://ineteconomics.org/ysi/events/rome-workshop-2015

**YSI-IMK Workshop Berlin**
*May 21-23, 2015*
Inequality: Theory, Data, Policy, Questions
Samuel Bowles, Santa Fe Institute
The Econometrics of Imperfect Knowledge
Katarina Juselius, University of Copenhagen
More info and application details here:
http://ineteconomics.org/ysi/events/berlin-workshop-2015

## Teaching Economics After the Crash

A **BBC Radio Programme** including contributions by:
Ha-Joon Ghang, Rob Johnson, Steve Keen, Diane Coyle, Victoria Bateman, Wendy Carlin, Philip Mirowski, Robert Skidelsky, Devram Yilmaz, Danny Quah, Yuan Yang and Joe Earle

**Listen to this 37 minute programme at: http://www.bbc.co.uk/programmes/b04svjbj**

The site also includes contributors' suggestions for further reading.

## In support of whistleblowers

By Stuart Birks

The dominance of mainstream economics is not simply a perpetuation of past thinking. It is in fact a narrowing of the accepted body of thought in economics. The shortening of courses, so as to fit within semesters, and the standardisation of material through the dominance of the limited number of textbooks has resulted in the limits in the elimination of many of the qualifications and alternative points that could be included in courses. The changed nature of assessment with an increased focus on multiple choice questions has also resulted in a change in the nature of economic thinking, presenting the discipline as if it can be represented in terms of a collection of true false questions.

Dissatisfaction about this has been expressed by students and also by many senior academic staff who have seen how the discipline has changed. Many midcareer academics are also uneasy about this development, but have concerns about their own job security and career progression. The development of a detached management structure where academic quality is assessed through research assessment exercise has imposed significant constraints with strong pressure to conform to the dominant norms within a discipline. Those who are most successful in this process are then placed in a position to judge the quality of their peers work. This further reinforces the emphasis on a narrow set of conventions.

So what is the position of an academic who decides to take a stand against this? To take one perspective, Fairclough has defined a dominant ideological-discursive formation where a perspective and its associated language have come to be seen as the truth or the real description of the world. Hence, "naturalization gives to particular ideological representations the status of common sense, and thereby makes them opaque, i.e. no longer visible as ideologies" (Fairclough, 1995, p. 42).

In this situation, any attempt to present an alternative description is seen as being biased and ideologically based, as compared to being honest and value free. Chomsky, in a documentary (Achbar & Wintonick, 1992) also talked of the need to give detailed explanation and justification of alternative perspectives, whereas those following the conventions do not face is difficulty. When the requirement is to get the approval of anonymous peer reviewers who have a vested interest in the continuation of the accepted conventions, the barriers to publication of alternative approaches are particularly severe. The problems are exacerbated when we consider the suggestion by Caldwell (1986) that it can be misleading to criticise one methodology by the criteria of another.

Under these circumstances, midcareer academics may well feel obliged to follow the crowd, even if their own beliefs are different. Many of the criticisms of mainstream economics and the dominant techniques being used are well known. Consequently, much of the research being done may be known to be of questionable value, even to those undertaking the research. Those who attempt to publicise this issue are then essentially whistle blowers and can expect a hostile response. It is hardly surprising that the most outspoken are either students who have not yet made a heavy career commitment to economics, or aging academics who have less at stake than those with many working years ahead of them.

Unfortunately, the longer our current career academics spend in the present environment, the less experience they will have of alternative perspectives and methodologies. If economics is to be broadly based and pluralist in future, it is important to address the barriers now. Whistle blowers are vulnerable when they act in isolation. They need our support and encouragement.

Achbar, M., & Wintonick, P. (Writers). (1992). Manufacturing Consent: Noam Chomsky and the Media.
Caldwell, B. J. (1986). Towards a broader conception of criticism. *History of Political Economy, 18*(4), 675-681.
Fairclough, N. (1995). *Critical discourse analysis: the critical study of language*. London: Longman.

## Do we really rely on the private sector?

*"We are constantly told that the State should have a limited role in the economy due to its inability to 'pick winners', whether the 'winners' are new technologies, economic sectors or specific firms. But what is ignored is that, in many of the cases that the State 'failed', it was trying to do something much more difficult than what many private businesses do: either trying to extend the period of glory of a mature industry (the Concorde experiment or the American Supersonic Transport project), or actively trying to launch a new technology sector (the Internet, or the IT revolution). [...p.19] Operating in such difficult territory makes the probability of failure much higher. Yet by constantly bashing the State's ability to be an effective and innovative agent in society, not only have we too easily blamed the State for some of its failures, we have also not developed the accurate metrics needed to judge its investments fairly.* ***Public venture capital, for example, is very different from private venture capital. It is willing to invest in areas with much higher risk, while providing greater patience and lower expectations of future returns.*** *By definition this is a more difficult situation. Yet the returns to public versus private venture capital are compared without taking this difference into account."*

[From pp.18-19 of Mazzucato, M. (2013). *The entrepreneurial state: debunking public vs. private sector myths*. London: Anthem Press.]

## Changing Times

By Grazia Ietto-Gillies

As many of you know, I am one of the founding members of the World Economics Association. Edward Fullbrook approached me in 2010 and asked me whether I wanted to collaborate with his project and help to bring to reality his vision for an economics association which is inclusive, pluralist and committed to openness. The idea attracted me and I set to work on a new approach to open peer review system. I had already done some critical work on peer review and I loved the idea of developing a concrete system. That how it all started for me.

Once we launched it in May 2011 there was a lot of excitement as the number of members kept going up. In the actual running of the activities I took responsibility for the organization of the Conference Programme while being available also for support in a variety of other areas. So far we had nine conferences. In the programme I had at various times, excellent support from Ilker Aslan and from Malgorzata Derienowska. Jake McMurchie's technical support has been fantastic and made a tremendous difference from our earlier lower tech attempts at organization. I am also very pleased to have been able to develop a collaboration with College Publications for the production of books from conferences. The first two – on the Economics Curriculum with Maria Alejandra Madi and Jack Reardon as editors, and on Piketty's *Capital* edited by Edward Fullbrook and Jamie Morgan – are now out.

It has been a great pleasure and privilege for me to develop activities which I believe in and to work with like minded, progressive colleagues from all over the world as well as with WEA closer colleagues Edward Fullbrook, Vicky Harris and Stuart Birks. However, it is time to move on and devote full attention to other aspects of my life. I will always be interested in the WEA activities and will always be available for background support and consultation. This is the right time for somebody else to take over the organization of the WEA conferences. Luckily we have a very competent, committed, enthusiastic and pleasant person in Maria Alejandra Madi from the University of Campinos in Brazil. Maria is already contributing to the WEA Pedagogy Blog (weapedagogy.wordpress.com) where she gives support for teaching and learning. She has hands-on experience of WEA conferences having organized two: the '*The economics curriculum: towards a radical reformation*' and '*Is a more inclusive and sustainable development possible in Brazil?*'. I will be available for her for a while after the hand-over to secure a smooth transition.

So, what will I do? Well, here are some of my plans and you can see that boredom is unlikely to hit me any time soon. I have three research project on the go. The first one – with Marion Frenz of Birkbeck University of London and Maria Savona of the Science Policy Research Unit, University of Sussex - is on 'Absorptive Capacity in Innovation Performance'. Our theoretical framework will be backed by empirics: some 12 indicators will be estimated for several countries over a 20 years period. We are currently also planning a parallel firm level study. The second project is a solo one. It has arisen from a commission by the European Trade Union Institute (ETUI) in Bruxelles. It looks at 'The Boundaries of the Firm from the point of view of labour as stakeholder'. The third one – with Giovanni Balcet from the University of Turin - looks at 'Transnational companies' strategies of organizational and geographical fragmentation and their impact on labour. Looking at FIAT's history'.

There are also some more personal activities. I am finishing a memoir of my childhood in the Aspromonte mountain of Calabria and its impact on my later life. It includes my mother's recipes of Calabrian food. It is healthy Mediterranean food, mainly vegetables. And last, but certainly not least, I currently devote – with great pleasure – two to three afternoons a week to my grandchildren Penelope (5 years) and Daniel (3+ years). I intend to continue my duties as 'nonna' (grandmother).

[Editor's note: from its inception, Grazia has made a very significant contribution to the World Economics Association. Her foresight and commitment has been a major factor in its success to date. We all owe her a debt of gratitude and wish her well in her future endeavours.]

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