

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.

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Rethinking Economics: Pluralism, Interdisciplinarity and Activism. [IIPPE's 6th Annual Conference](#)

By [Annina Kaltenbrunner](#),
[Mary Robertson](#) and
[Al Campbell](#)

[The International Initiative for Promoting Political Economy \(IIPPE\)](#) held its Sixth Annual Conference in Political Economy at the University of Leeds on the 9-11th of September. This year's conference focused on fostering reflection on positive alternatives to the mainstream by examining political economy from the complementary angles of pluralism, interdisciplinarity and activism. The programme consisted of 222 presentations in 64 panels from across the social sciences and activists, plus four plenary sessions. For the first time the programme also included screenings of 8 radical documentaries, including [Riots Reframed](#) by Fahim Alam and [The War You Don't See](#) by John Pilger.

The conference was hosted by the [Economics Division of Leeds University Business School](#), which ranked in the top ten in the UK's most recent Research Excellency Framework. The Division is a growing centre for heterodox political economy, whose pluralist research environment is reflected in the strong presence of faculty members working in the fields of post-Keynesian, Institutionalist, Evolutionary, and Marxist economics, alongside more mainstream researchers. The Division has a growing and vibrant PhD community which supported the organisation of the conference. Interdisciplinarity has been actively cultivated in the Division in recent years, particularly through the Division's central role in the [FESSUD](#) and [iBuild](#) projects and the emerging University-wide cities research theme. Several faculty members are also actively engaged with public policy making on the regional, national and international level.

Reflecting IIPPE's objective to build links with activists in economics and beyond, and a strong base of economic student activists at Leeds, the conference included panels by the International Student's Initiative for Pluralism in Economics (ISIPE), Reteaching Economics, and a plenary session featuring a representative from Rethinking Economics. As in previous years, there was also a training workshop on the day before the conference, in which Simon Mohun, Alfredo Saad-Filho and John Weeks spoke on the topic of 'the rate of profit and crisis.' This year's conference was also generously supported by the [Foundation for European Progressive Studies \(FEPS\)](#), a progressive European-level think tank that seeks to build an intellectual crossroads between social democracy and the European project.

Plenary sessions were reduced to two speakers per session this year in order to allow presenters to go into greater depth and to provide more time for discussion. The opening plenary around the theme of Pluralism and Interdisciplinarity featured John Weeks speaking on 'troglodyte economics - the neoclassical politicizing of the profession' and Johnna Montgomerie on 'why debts matter - how interdisciplinarity helps us rethink economics'. Thursday's plenary brought together two leading financialisation scholars, Brett Christophers and Gary Dymksi, to debate 'monopoly power, inequality, and in-

stability in the era of global capitalism'. The closing plenary addressed the issue of economic activism. The scheduled speakers were Bruno Tinel on 'FAPE and the open letter', Yuan Yang of Rethinking Economics on 'the fight to demystify, diversify, and invigorate economics', and Ania Skrzypek from FEPS on 'from rhetoric of overspending to the truth about social investments - European next left in a search for a new narrative.' Last minute personal issues prevented both Yuan and Ania from attending, but their planned presentations are available on the [IIPPE Web site](#), along with those of all the other plenary speakers. Excellent and well-received "no notice" substitute presentations by Elva Bova for Ania and Diana García López for Yuan closed out the conference with a bang.

As always, the conference had a strong representation from international scholars from the Global South. It featured several panels thematising the peculiar economic, social, and political struggles in these countries. To further forge IIPPE's international ties, this year the conference had a special plenary organised by our sister Political Economy organizations, SEP (Brazilian Society of Political Economy) and SEPLA (Latin American Society of Political Economy) on 'the end of neo-developmentalism'. The speakers were two leading Brazilian academics: Leda Paulani from the University of Sao Paulo and Vanessa Petrelli Correa from the Federal University of Uberlandia.

Leeds today is at the centre of Britain's post-industrial and multicultural North. Curry has become the staple diet of Yorkshire. The conference dinner at renowned Pakistani restaurant, Akbars, provided the perfect occasion to sample this cuisine while socialising collectively with other delegates.

The location of the conference in the North of England presented the opportunity to explore the former heart of industrial Britain. The social programme, which follows the conference proper every year, seeks to provide a space where people can meet and discuss their research in a relaxed, informal environment. This year's social programme was organised round the theme of exploring the 'cradle of capitalism and of anti-capitalist resistance' in Leeds and Manchester. It included a visit to Leeds' own Industrial Museum, the celebrated People's History Museum in Manchester, and a guided radical walking tour of Manchester. The latter includes the sites that defined Manchester not only as the trailblazer of the industrial revolution, but also as the key site in the development of an independent workers' opposition to capital. It included a visit to [Chetham's Library](#), where two headstrong young scholars once sat together to write of a spectre then (and still today) haunting Europe.

IIPPE's Seventh Annual Conference in Political Economy will be held September 7 - 9, 2016, at the *Instituto Superior de Economia e Gestão* (Higher Institute of Economics and Management) in Lisbon. The call for papers will be issued and be on [IIPPE's website](#) by late fall, 2015.

The European Crisis Online Conference

The Conference web site is at

<http://europeancrisis2015.weaconferences.net/>

The Conference leaders are James Galbraith, Beniamino Moro and Victor A. Beker

The WEA online conference on the European crisis started on October 1st.

The Discussion Forum will remain open until December 1st. Comments are welcomed.

The conference aims to analyse the current crisis in the countries of the Eurozone. After the 2008 financial meltdown, the American crisis soon infected the European financial system, becoming both a sovereign debt crisis and a banking debacle in many peripheral Euro area countries. The European crisis has shown that crisis can spread quickly among closely integrated economies. The implementation of austerity policies, prompted by the Troika (European Commission, European Central Bank and the IMF) have reinforced a spiral of economic contractions, and provoked a rising political rebellion against austerity, inspired in part (and especially in Spain, but also to a degree in Greece) by the successful exit from crisis of the South American countries in the past decade.

The following papers are being discussed:

Greece: Conditions and Strategies for Economic Recovery D.B. Papadimitriou, M. Nikiforos, and G. Zezza.

The Greek economy has the potential to recover, and in this report we argue that access to alternative financing sources such as zero-coupon bonds (“Geuros”) and fiscal credit certificates could provide the impetus and liquidity needed to grow the economy and create jobs. But there are preconditions: the existing government debt must be rolled over and austerity policies put aside, restoring trust in the country’s economic future and setting the stage for sustainable income growth, which will eventually enable Greece to repay its debt.

Signaling imbalances in the EMU, Nicola Acocella.

Markets show well known difficulties in delivering the right signals of looming imbalances, may underreact or overreact to them and cannot properly correct them. Pure monetary union add no significant system of signaling and re-adjustment and can even cause further imbalances. The more so if the asymmetries producing such imbalances have a structural nature, as in this case some markets, such as labour markets, may not work in an appropriate way. In this situation moral hazard and adverse selection are easy to arise, making correction of imbalances more difficult. The system should then be helped to deliver proper signals and to correct them. The OCA theory must be made to work and appropriate non-market institutions, mainly at the union level, should be created. In particular, a common financial regulation, fiscal, industrial and labour policies should be introduced, while devising consistent institutions at the country level.

The euro, long-run convergence and the impact of the crises. By Enrico Marelli and Marcello Signorelli.

In this paper we analyse two different issues concern-

ing economic performances and policies in Europe after the introduction of euro: the long-run real economic convergence (or divergence) across Eurozone countries and the impact of the recent crises. Regarding the first issue, we review the relevant economic theories, with particular reference to the “Optimal currency area” theories. Then we accomplish some empirical analyses to assess the extent of long-run economic convergence (or divergence), the similarity of economic cycles and trade integration within the Eurozone countries, as well as in the EU in general. The results show that the role of the monetary union in favouring real convergence is disputable.

As regards the second issue, we speak of “crises” since after the global financial crisis and the Great Recession (2007-09) in Europe we had a second crisis – the sovereign debt crisis – causing a second recession and whose impact is long-lasting. Particularly worrying are the consequences on the labour markets, especially on youth unemployment. Our opinion is that the austerity measures undertaken in the area, especially in the peripheral countries, have caused a prolonged recession, stagnation and persistent unemployment.

In the concluding section, we emphasize the policy implications, related both to the radical reforms needed in the EU institutions and governance – in particular to guarantee a viable monetary union and favour real convergence of its economies – and the changes needed in current macroeconomic policies.

A Euro Area Government – A Dream Come True? Tom Vleeschhouwer and Tara Koning.

This paper studies three important problems that have led to or have aggravated the euro crisis: moral hazard in accumulating debt by sovereigns, lack of macroeconomic policy coordination and stabilization, and macroeconomic imbalances. We use both theoretical and empirical evidence to argue that these problems were largely caused by coordination problems. We will then investigate whether a supranational government, a layer of government above all euro member countries, can alleviate these problems. We will find that macroeconomic stabilization and macroeconomic imbalances can be improved by such a government, though moral hazard cannot be solved. The only, but certainly not insignificant, obstacle seems to be that politicians and voters may not be willing to transfer their authority to this government.

Parallel currencies, Varoufakis’ plan B and the ongoing debate on Euro, Jacques Sapir.

The last round of the Greek crisis has epitomized the European institutions nasty behavior. It has also put on

the forefront the issue of the Euro. The European Monetary Union has turned into an instrument of enforcement of austerity and deflation all over the Eurozone. Its nasty consequences are going far over the Eurozone by the way. The crisis ended temporarily with an agreement that was forced upon the Greek government. It will have enduring consequences. But, in the process of this crisis have emerged the possibility of another way. What has been called Yanis Varoufakis "plan B" was an attempt to create a parallel payment system, and possibly a parallel currency. It was not intended to be a short road for Greece to return to the Drachma but it could have been so. This paper is then to study the process of this so-called "plan B" in the light of previous experiment with parallel currencies.

Economic Policy and Political Power in European Crises.

By Gerson P. Lima.

This paper analyses the European Union crisis assuming that the economy is commanded by a veiled political power linked to the financial market. This connection is important for a financial crisis is consequence of financial capital supply excess, especially money supply excess, leading to risky operations and financial capital losses internally and abroad. A critical appreciation of the monetary policy reveals that it cannot deliver the promised price stability for the interest rent on public debt is mainly paid with new money printed by the central banks when buying Treasury bonds in open market operations. Inverse operations do not withdraw this liquidity for bond sales comprise interests. An experiment with US data is quoted to support the idea that the origin of the past and future American financial crises is the money printed to pay interest on the US public debt. Next it is demonstrated that the stock of money issued by government to make fiscal policy converges to a theoretical point of equilibrium. It is also observed that fiscal policy does not cause inflation for it is not always expansive and higher prices in this case are indication that people's wealth increased; so, they are climbing the Maslow's Pyramid and buying dearer stuffs. The European union are said to have two crises, the general one touching almost all countries where monetary policy prevails and its particular crisis, the risk of dismantling due to potential state members bankrupts. Collecting arguments, the conclusion is that there are evidences to support the Hellinger's proposal of a parallel currency emission by state-members to make local fiscal policy. It is finally stated that even if this proposal is attractive to decision makers it must be, as any other economic policy, interesting to the political power and preserve democracy.

The Euro Area's Experience with Unconventional Monetary Policy. Cristiano Boaventura Duarte and André de Melo Modenesi.

This paper discusses the role of monetary policies implemented by the European Central Bank (ECB) after the 2008 financial crisis, with a special focus on unconventional measures, analyzing to what extent they influenced Euro area's macroeconomic performance in the period. After the 2008 shock in the USA, several conventional and unconventional monetary actions were imple-

mented by the ECB. Although the initial measures prevented a massive failure of banks, they didn't avoid the escalation of the situation into a serious sovereign and banking crisis, which had roots deeply inserted in the Euro area itself. Some programs like the SMP received strong criticism, but other measures like the OMT avoided the more acute risks of contagion through the Euro area. Nonetheless, with persistent economic weakness and risk of deflation, the ECB extended its stimulus programs in September 2014 (TLTRO, CBPP3, ABSPP) and in March 2015, with a broad unsterilized public sector purchase program (PSPP). As they corrected some of the problems from previous programs, and conveyed a strong commitment to fight deflation, those programs initially lead to positive effects on several macroeconomic indicators (sovereign yields, euro exchange rate, credit, output, inflation), although with some volatility on yields and the euro later due to intra and extra-Euro area factors. Considering that medium and long-term expectations still remain in low levels, the ECB intends to continue the program until it gets to its inflation objective of below but close to 2%, and may even review the program if it happens an unwarranted tightening of financial conditions. Nevertheless, serious problems remain for households (high levels of indebtedness and unemployment), enterprises (challenges for investment, financial volatility) and governments (fiscal, political and institutional constraints). It is argued that the path for a sustained growth recovery in the Euro area not only goes through unconventional monetary policies. They should also be complemented by a coordinated fiscal policy, more flexible (and countercyclical) in periods of economic downturns, coupled with adequate institutional reforms that together foster credit markets, encourage private and public investments in the long term and reduce regional asymmetries. Additionally, it is believed that a more robust and integrated financial supervisory framework (not only on banking but also on capital, insurance and pension markets) would contribute to reduce negative spillovers from financial volatility episodes, break the sovereign-bank "doom loop" and bring more financial stability to the zone.

At the Root of Economic Fluctuations: Expectations, Preferences and Innovation. Theoretical Framework and Empirical Evidences. By Carmelo Ferlito.

The present paper aim to develop the Austrian Theory of Business Cycle in order to conclude that economic fluctuations are unavoidable. The conventional version of Austrian business cycle theory focuses on a temporary imbalance between natural and monetary rates of interest. When, because of the role of monetary authorities in defining the monetary rate, the two values are in a situation of imbalance, the resulting expansion stage is followed by a recession. On the other hand, if instead the expansive phase arises without any interference by monetary authorities but through re-adaptation of the productive structure to a modified structure of temporal preferences, a period of sustainable growth begins that will not be followed by a crisis. The purpose of this essay is to demonstrate, on the other hand, that because of

profit-expectations and the combined action of Schumpeterian elements (imitations-speculations and the 'creation of money' by banks), even a so-called 'sustainable' boom will be affected by a liquidation and settling crisis. What distinguishes the latter situation from the conventional case of imbalance between monetary and natural rates is not the onset or otherwise of a crisis but, rather, its intensity and duration. We will define as natural an economic cycle characterised by a stage of expansion considered to be 'sustainable' in the Austrian theory but followed by an inevitable readjustment crisis. In conclusion we will try to link our theoretical conclusions with the crisis emerged in the Western world in 2007, to test the explanatory power of our theoretical framework.

Unemployment around the North Atlantic, 1948-2014.

By Merijn Knibbe.

In 2008 William Mitchell and Joan Muysken argued that after about 1978 there had been a shift from public policies aimed at full employment at the macro level to full employability at the micro level, accompanied by a larger emphasis on the budget balance of the government and low inflation. At the same time, unemployment rose to levels unheard of in decades. After 2008, however, unemployment increased to even higher levels, while extending the analysis to countries from the 'fringe' of Europe and to data on 'broad' unemployment reveals that extreme levels of unemployment in these

regions were a rule instead of an exception. Flow data on the labour market show that during crises there is a temporary and relatively small increase of inflows into unemployment and a decrease of outflows out of unemployment, which, however, combine into a fast increase in the stock of unemployment – which is not countered by higher rates of outflow and inflow after the crisis. This evidence shows that major crises tend to shift countries to a semi-permanent situation of higher unemployment. Instead of countering this situation, after 2008 public policies shifted away from even the idea of employability and, led by EU institutions, a public discourse which tended to stress the moral and ethical advantages of extreme unemployment, like increased levels of 'discipline', developed. At the same time and led by EU institutions, government transfers to banks increased, leading to a deterioration of government balances and less room for government spending. The solution proposed by Mitchell and Muysken – a job guarantee financed by money printing and shredding – might still be a good idea but has to be accompanied by a central bank buying bad debts from banks (the catch: increased government guidance for bank lending) while, considering the elevated levels of unemployment, allocation of unemployed over the guaranteed jobs might have to be enhanced by using the same kind of planning algorithms which are, at the moment, used to match donor kidneys with patients.

Neoclassical modelling as a strategy to 'unsee' involuntary unemployment

– the example of the neoclassical analysis of the Great Depression in the USA. By [Merijn Knibbe](#)

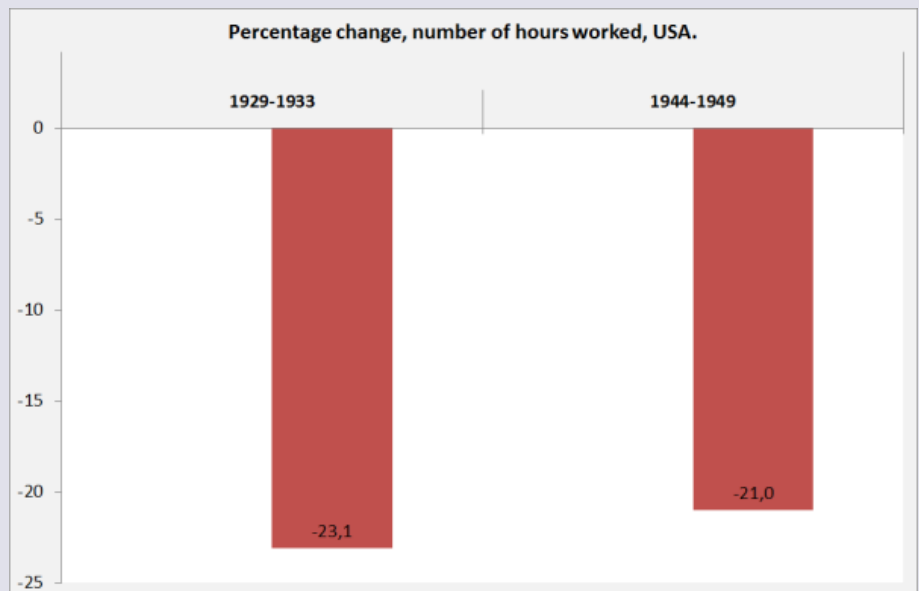
Neoclassical modelling as a strategy to 'unsee' involuntary unemployment – the example of the neoclassical analysis of the Great Depression in the USA.

What does the post WW II decline in hours worked in the USA teach us about the economy – and about economics? Why do economists gloss over this momentous event and why are they often not even aware of it? It's not because of its size, as this decline was of the same magnitude as decline during the Great Depression [graph source: [Higgs \(2009\)](#)]

This lack of interest in the comparison between the 1929-1933 and the 1944-1949 period becomes even more remarkable when we look at unemployment. Between 1929 and 1933 unemployment went up from 3% to a devastating 25%. But after August 1944 unemployment only increased from 1% in August 1944 to 6.6% in 1949, an increase of 5.6% of which 2%-point took place in one single month, September 1944. Why aren't economists more interested in this at first sight totally anomalous behavior of the economy? In some way or another, economic policies and events prevented the rise of mass unemployment - what does this

period teach us. Why aren't economists more interested in this question!

Below, I will, using the work of Harold Cole and Lee Ohanian, two economists who [published extensively](#) on the Great Depression in the USA, argue that the lack of interest in the 1944-1949 period might be due to the a-historical nature of much economic theory. Economic models and economic theory have difficulties incorpo-



rating changing circumstances – which leads and enables economists to gloss over idiosyncratic events like this one. One aspect of this is the absence in neoclassical macro-economics (Ohanian and Cole label themselves as such and even use the phrase ‘neoclassical’ [in the title of their papers](#)) of the concept of ‘involuntary unemployment’. ‘Involuntary unemployment’ is (looking at present day questionnaires) what we actually measure as ‘unemployment’, measurements which clearly show that, Greece and Spain being two recent examples, involuntary unemployment can rapidly rise to double digit and even 25%+ levels – just as it did during the Great Depression in the USA. There clearly seems to be a mayor discrepancy between our measurements and neoclassical macro theory. The facts about unemployment during the thirties in the USA are thus clear in that the absence of ‘involuntary unemployment’ in the neoclassical models can’t be explained by any kind of ‘accident’ – it’s not in the models on purpose. What kind of modelling strategies are used by neoclassical economists like Cole and Ohanian to ‘unsee’ events like the 22%-point increase of unemployment after 1929 and, as a consequence, to accept a highly idiosyncratic period like 1944-1949 as ‘normal’? As all data on the Great Depression show an unprecedented drop in the number of hours worked as well as an unprecedented increase in unemployment, Cole and Ohanian did have quite a problem: how did they manage to explain 25% involuntary unemployment away? And how does this relate to a period like 1944-1949, when a very large decline in hours did *not* lead to 20%+ unemployment? How did they do it? And why? While they do mention high rates of unemployment (first link), they try to disconnect this from demand and to redefine this as a supply side reaction. What enables them to do this?

Cole and Ohanian use two somewhat conflicting but deeply neoclassical strategies. One is the ‘representative household’ concept. This concept states that all households act like one and with perfect foresight, which means that ‘involuntary unemployment’ is impossible. The household might, choose to work a little less – but that’s not unemployment, that’s leisure (for the innocent: I’m not kidding. That’s what the models assume). The good thing about Cole and Ohanian is that they operationalize this concept. They look at *the average number of paid hours worked per capita*, which as the population of the USA increased with roughly 1% a year declined even faster and more than total hours! And, consistent with neoclassical economics, they see this sudden, unprecedented and momentous decline as a conscious, rational choice for leisure... As Robert Higgs bluntly states ([p. 152](#)): “By using hours worked as our measure of employment, we avoid the necessity of distinguishing who is employed and who is unemployed”. Higgs says that unemployment is a poor measure because people are not just employed or unemployed, there can be differences in hours worked. He then says that even when unemployment fell, this did not equate to a return to earlier levels of hours worked. Higgs is totally right to point this out. Of course, the number of hours worked is

an important variable which has to be used to investigate the severity of the Great Depression and to understand what caused the decline of unemployment. It is, however, an average and surely during very severe depressions it is also important – not to say a necessity – to look at the unemployed, as it individual unemployment which causes hardship. Remarkably, I find myself taking a more individualistic stance than either the neoclassical economists or even libertarians like Higgs! Which underscores the question: why do they try to explain unemployment away? It’s like the well-known example of the man who tries to cross the river which, on average, is only 0,5 metre deep – and drowns in a deep hole.

If we accept the idea that a 25% decline in hours worked per capita is voluntary this of course implicates a totally different lifestyle – but did people in the thirties really prefer to be dirt poor or to be a hobo’s to having a regular job and a prospering family? If so, why did all these hobo’s suddenly disappear during World War II, when labour was scarce and jobs were plentiful? And why did preferences of the USA population representative household suddenly change again after 1933, when the number of jobs number of hours started to grow at a 5 to 10% level a year? Cole and Ohanian are mumbling a bit about people wanting to be unemployed because they did not want jobs in ‘competitive’ sectors and wanted jobs in protected sectors but are we sure that 20%+ of the population really preferred unemployment to even poorly paid jobs? When we look at the supply side, the growth of hours worked can be neatly explained by the concept of *involuntary* unemployment in combination with a recovering economy. It would however take till World War II before the USA surpassed the 1929 level of hours worked – Cole and Ohanian do have a point when they point out that productivity absolutely surged, during the thirties, which meant that even 8 to 10% growth of demand and production led to a somewhat disappointing increase of employment... But this only serves to underscore the insufficiency of their modelling strategy which basically boils down assuming that people didn’t want to work when unemployment was high and wanted to work when unemployment was lower. However, taking unemployment seriously would, in combination with the rapid increase in productivity, have taught them demand and not supply was the problem.¹ Is that why they are bending over backwards to unsee 25%+ unemployment?

Cole and Ohanian however also have a second strategy, which at least accept the idea of different households. This is [how they describe](#) it:

A household member either works in the competitive sector, (nft), works in the cartel sector (nmt) (if the household member already has a cartel job), searches for a job in the cartel sector (nut), or takes leisure. Since the cartel wage will be higher than the competitive wage, household members compete for these rents by searching for cartel jobs. Searching consists of waiting for a vacant cartel job, and search incurs the same utility cost as working full time. If a cartel job vacancy arises, the job is awarded randomly at the

start of the period to an individual who searched the previous period. We denote the probability of obtaining a cartel job through search in period t . To build in job turnover arising from life-cycle events such as retirement or disability, we assume that cartel workers face an exogenous probability of losing their jobs at each date.

Translated: people are never fired. They do quit jobs, but only to indulge in leisure or to search for a job with a higher wage. This by necessity means that all unemployment is caused by wage differences between competitive and protected economic sectors and is, by definition, voluntary. Never mind that during the thirties many, many unemployed were fired and accepted wages which were much lower than their previous wages - this modelling strategy is entirely consistent with neoclassical economics which, therewith, enables you to unsee involuntary unemployment.

This strategy of course backfires when unemployment rapidly declines. Or, like after the war, rose much less than was to be expected when we look at hours data only. The War economy was of course very overheated and the decline of hours worked after 1944 was to an extent of course a return to normalcy: i.e. quite a number of women who left the labour force altogether to care for their families (which was normal, remembering that families were larger in those days while washing machines were in their infancy), less work on Sundays, etc.. Overheating seems to have stopped quite fast - in September 1945 the unemployment rate jumped by 2%-points to about 3%, a level not too different from low pre-1930 unemployment rates. After September 1944, however, *the average number of hours worked per week per employee also declined by about 10%*, compared with the thirties and even more when compared with WW II. Between 1929 and 1937, *nothing of the kind happened* (based upon Kendrick, *Productivity trends in the United States* (Princeton 1961, p. 316), who gives data for 1929, 1937 and 1948²). This alone makes up for half the decline in hours worked. The irony is that this indeed seems to have been a voluntary decline of labour supply. Did 'New Deal' rules, higher wages and more union power and enhanced job security enable this development? Was mass unemployment prevented by the weekend? These are tantalising questions – but to answer them we do have to take the idea of involuntary unemployment seriously.

And is that also the very reason why neoclassical economists do not take this idea seriously? Can't they accept that in a market economy, involuntary employment exists and persists? Can't they accept the fact that solving it sometimes requires government action, if only to enable households to solve coordination problems connected to, in the 1944 case, a preference to work less (paid work that is). This requires, of course, more thorough investigation than is possible here. But such a proper investigation of household behavior in this time has to be based upon the total number of hours worked – but also on taking the concept and measurement of

'involuntary unemployment' seriously. Neoclassical models do not allow this – as they still seem to be engineered to unsee unemployment, measured in individual persons. Look [here](#) for the New Area Wide Model of the European Union and the [Eagle model](#) used by the ECB. Look [here](#) for an infamous 'soup kitchens caused the Great Depression' article by Prescott, look [here](#) for a takedown of that idea. The stark differences between the 1929-1937 and the 1944-1949 periods are another



reminder of the large difference between (the causes and consequences of) *voluntary* declines in the amount of hours and *involuntary* declines - i.e. unemployment and the importance to take historical circumstances and institutional developments into account when analyzing the economy. And let's stop talking about 'involuntary' unemployment. Unemployment as we measure it is, by definition, involuntary. We do have to take that seriously.

Doris Day as an angry but confident worker in 'The Pajama Game'. Did this musical capture the 'Zeitgeist' of this age and was this confidence caused by Union Power and the New Deal?

¹ At the time, it took a total maniac to take advantage of this situation. In any other epoch, the NAZI plans would have led to runaway inflation. In the thirties (that is, after 1933) exceptional increases of productivity prevented this and enabled an extremely rapid rearmament. This foreshadowed the extreme increase of production of the USA economy after 1941.

² Note Higgs p.152, citing Kendrick: "With regard to hours worked, the profile looks somewhat different, however. Total hours worked fell substantially from 1929 to 1932. Then, unlike the standard depiction of the economy's course, they hit bottom and stayed put in a virtually flat-bottomed trough for three years, 1932, 1933, and 1934. They then rose substantially until 1937, dropped by 7 percent in 1938, then rose again thereafter. However, even as late as 1940, total hours remained below the 1929 level by 6 percent, and only in 1941, with the population vigorously engaged in mobilization for war, did total hours exceed the 1929 value, by 3 percent."

The case for public credit rating agencies

Susan Schroeder of the University of Sydney has recently published a monograph, *Public Credit Rating Agencies: Increasing Capital Investment and Lending Stability in Volatile Markets*, (New York: Palgrave Macmillan). Here she answers some questions from Stuart Birks

1. What do you see as the main problems with private credit rating agencies? (Is this market failure?)

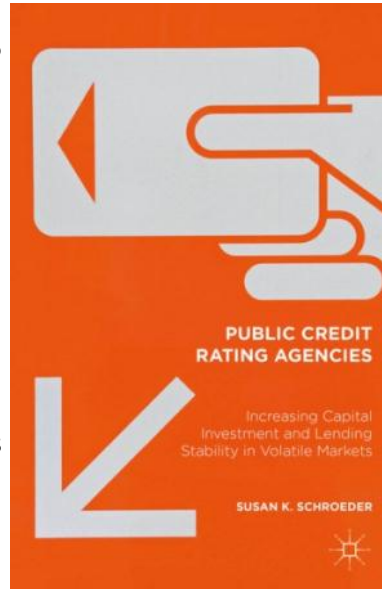
A key problem with credit rating agencies is that their methods carry an inherent vision of stability for a market economy. I dare say that many people, especially in the aftermath of the Global Financial Crisis (GFC), would not agree that a market economy – which operates by a generalized process of exchange – is inherently stable. In fact, instability and insecurity are more likely to be viewed as the norm.

The vision of inherent stability is reflected in assumptions of, for instance, stable discount rates or stable probability distribution functions underlying risk calculations. The investment and financing decisions of firms are often modelled with such assumptions. The models do not fully capture important dynamics associated with capital accumulation and economic growth.

Models of creditworthiness need to be re-cast in to an open system of economic thought. The quest for additional information about the characteristics of borrowers such as nonfinancial firms, financial firms, households, and governments is in a way sidestepping the issue. Policy makers, too, are not sure of what to monitor or how to guide the economy towards a more stable and socially just path.

2. Why wouldn't competition between agencies overcome the problem?

After years of relative independence from regulation, competition between the agencies has not pushed them to reframe credit risk assessment into open system of thought. Credit risk is cast within closed systems of thought, which are amenable to uncertainty being reduced to risk through the use of probability distributions. Moreover, probability distributions need to be stable in order to generate outcomes which can be compared. Current methods of credit risk assessment are understood to be pro-cyclical, with creditworthiness changes related to changes in the business environment. Despite this fact, and after years of little regulation over their activities, the rating agencies are not moved to think about credit risk within an open system of thought. The book argues that an open system of thought permits additional dynamics of accumulation to surface, dynamics that the agencies currently downplay or overlook



completely. For example, there is an interplay between profitability of investment and the business cycle.

3. Why do you see public agencies as the best alternative?

Public agencies can help forge cooperative relationships between government (which hopefully protects the public's interest), the rating agencies and those who use credit risk assessments, such as, non-financial firms (including small and medium sized enterprises) across the range of industries, financial firms, and households. A cooperative relationship between the individual interests will enable them to see more directly the impact that ratings have on overall economic performance and each other. Individual agents often perceive themselves as being independent of most aspects of an overall economy. By enabling them to see themselves within a social division of labor that is, itself, embedded in a unique social, political and institutional context, they would better understand the impact their decisions have upon each other and the public's interest overall. Without some sort of pressure to bring them face-to-face, they will continue to act in their own self-interest. For the ratings industry, this would seem to imply the continued use of ratings methods that are pro-cyclical and, hence, exacerbate economic and financial instability. It is costly to improve methods, and a cooperative relationship would not only identify issues more directly, but also lower costs of improvement.

A public credit rating agency has a natural entry point onto the stage of debate if allowed to simply validate the ratings of credit rating[?] agencies and investigate the relationship between changes in credit risk and the business cycle. The rating agencies have a tendency to conduct due diligence more intensely when an event has occurred and their products come under scrutiny. As part of the process, a public credit rating agency could create its own method for monitoring industries and the macroeconomy for changes in the business climate and creditworthiness.

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4. How do you see public agencies operating (national, international, accountable to whom?)?

A public credit rating agency is an independent, national public agency funded through taxes and duties placed, on an as needed basis, especially upon corporations, but also on wealthy individuals and entities that use ratings

or credit risk models either directly or indirectly. Direct users include issuers and firms and financial institutions that rely on agencies' assessments of counterparty risk. Indirect users are those entities that use ratings to cross-check their internal systems, such as financial intermediaries (all banks), institutional investors, credit card companies, finance companies, mortgage lenders, and credit unions. Its budget could be supplemented with government funding, if needed.

Its functions suggest a divisional structure in order to facilitate efficiencies and extend expertise. The divisions focus on industries, the financial services sector, and households. Subdivisions or teams can be created to focus on issues with respect to particular firm types, such as corporations and SMEs. The divisional structure is conducive to the avoidance of regulatory capture. Other protective features include employing experts with diverse and independent opinions, locating a devil's advocate and involving the press. As a public credit rating agency is intended to serve the public interest, it needs to reach out to the public as best it can. My vision is to structure a public credit rating agency similarly to an export bank, such as the U.S. Export-Import Bank. So, there would be a director and a deputy director who are appointed by the president and approved in the Senate, both have four-year terms. There is a board of directors that adopts and amends bylaws that designates vice presidents or officers of various aspects of the agency's functions and divisions. One of the board members must represent small business. The advisory committee repre-

sents members of society who are influenced in one way or another by credit activities. There could be, say, 20 representatives from: (1) industries (nonfinancial), (2) nonindustrial/non-profit borrowers (e.g., consumers and universities), (3) banks and institutional investors, (4) the rating agencies and bureaus, (5) academics (experts with diverse opinions), (6) devil's advocates (e.g., consumer, investor, labor, and environmental activists), and, perhaps, (7) the press. Special attention is made to ensure representation of people of color and women.

National public credit rating agencies could be supported with an international version – an international credit rating agency – located, arguably, at the United Nations. The agency could serve comparable functions focusing on sovereign ratings, acting to validate the work performed by national agencies and private assessors. It could, conceivably, create benchmarks for sovereigns' ratings. Its presence would act to counterbalance the influence that private credit rating agencies have over the state of fiscal budgets. Attempting to reduce fiscal deficits during recessions, in response to potential or actual sovereign downgrades, has a tendency to weaken effective demand and economic growth. An international credit rating agency could, conceivably, call a moratorium on downgrades in order to enable governments to stimulate growth and enhance economies' shift to recovery. By doing so, social safety nets and workers' living standards can be protected.

The changing academic work environment

1. "The paradox of the under-performing professor", a piece by Liz Morrish published on 10th July 2015, begins:

This post has been inspired by an apparent declaration of hostilities towards professors in a number of universities. The weapon of choice has been performance management, and some aspects of audit culture have been liberated from their usual role of absorbing academics' time to becoming instruments of punishment.

Read the whole piece at:

<https://academicirregularities.wordpress.com/2015/07/10/the-paradox-of-the-underperforming-professor/>

2. In "Academic unfreedom in economics", David Ruccio writes of:

the length to which mainstream economists (and, as I wrote above, their allies within university administrations) will go to marginalize or eliminate heterodox approaches to economics.

Read the whole post at: <https://rwer.wordpress.com/2015/10/30/academic-unfreedom-in-economics/>

3. See also [Academic freedom and tenure](#), a themed issue of the journal, *Ethics in Science and Environmental Politics*. It includes the following:

The rise of academic capitalism, both at the corporate and individual level, did not happen by accident, nor was it simply imposed arbitrarily from the outside. The failure of academics as individuals and universities as corporate bodies to challenge the spread of market values and new managerialism in higher education, and, at times, their collaboration with these for personal and/or institutional career gains has, in itself, diminished academic freedom.

[P.11 of Lynch, K., & Ivancheva, M. (2015) [Academic freedom and the commercialisation of universities: a critical ethical analysis](#). *Ethics in Science and Environmental Politics*, 15(1)]

Principles of Economics for a Post-Meltdown World

A Critique of Samuelson and Nordhaus's *Economics* 19th edn

A WEA Press ebook by John Komlos

John describes his book:

My main goal in this volume is to emphasize the ways in which introductory economics textbooks are misleading insofar as they sing the praises of free markets, keeping any demurrals muted. I am convinced that current principles books are inadequate for the post-Meltdown world and students know it, as evinced by such events as the walkout from Econ10 in Harvard and by the global Rethinking Economics movement. Actually, they are more than inadequate: they are misleading and hence "toxic" for a large number of reasons including:

- a) they rely on the rational agent model thereby completely disregarding the work of Herbert Simon and Kahneman and Tversky; in an important sense the standard assumptions in economics are pre-Freudian and pre-Pavlovian.
- b) they disregard the effects of incomplete and asymmetric information on choice and on allocation by overlooking the path-breaking work of scholars such as Akerlof and Stiglitz. In other words, the standard economics principles textbook is plainly anachronistic.
- c) they assume that tastes are exogenous, which, of course, is utterly misleading. This is important because conventional economists do not consider the extent to which there is a feedback effect from the business community to influence individual tastes.
- d) they provide examples of simple choice between two goods disregarding that choice almost always involves a sequence of decisions which is computationally much more demanding than the no-brainers they offer as examples. They overlook the fact that path-dependence is a major hindrance to optimization.
- e) they overlook interdependencies. There are all sorts of externalities not only in production but in consumption as well. Just think of Veblen goods.
- f) they pretend to be scientific and value free but end up being fully ideological.

These examples are not meant to be exhaustive by any means but illustrative of the many ways in which mainstream principles of economics textbooks distort our worldview with immense political and cultural consequences. Students of principles deserve a more complete perspective. Thus, my goal is to critique the conventional worldview and provide an alternative perspective. **My version of free-market economics emphasizes that the human element should be paramount and moral judgments should override market outcomes to the extent these are not to the benefit of the common weal.** In other words, what is important is not GNP as much as the quality of life. Not institutions but how people live and fare in them.

To illustrate John's approach, here are three extracts. S&N's statements are in italics, followed by John's critique:

"A cool-headed analysis indicates that the minimum-wage debate centers primarily on issues of interpretation rather than fundamental disagreements on empirical findings." (S&N p. 78)

The actual cool-headed analysis indicates that this is a sensitive issue that turns on ideology and on which model one applies to the problem. In their analysis, S&N use a perfectly competitive model without any imperfections (in their Figure 4.12, p. 79). Of course, that model is completely irrelevant to the current economy insofar as there are hardly any perfectly competitive markets left. Thus, an oligopolistic model would have been the correct model to use in their analysis.

Today the low wage employers are almost all oligopolies such as in the fast food industry or the "big box" stores such as Walmart, Target, or Lowe's which earn a lot of profits. In such an oligopolistic market an increase in the minimum wage comes out of profits and does not lead to unemployment. Hence, an oligopolistic model would have been called for.

"Inefficiencies associated with the minimum wage." (S&N p. 79)

S&N claim to be scientific and promised to tell the students the truth but instead they mislead and obfuscate at every turn to suit their ideology. This is an excellent example. The matter of fact is that: there does not have to be any inefficiency associated with the minimum wage at all. That is a myth. There may be, but it does not *have* to be. That makes a world of a difference. Their analysis of the minimum wage would be applicable to a perfectly competitive labor market and with full employment. Of course, if that were the case and the wage were increased the demand for labor would decline creating unemployment. But the last time we had full employment was in 1944! That was a long time ago. In other words, the model they apply is irrelevant to today's economy.

Discussing price controls at a time of gasoline shortage S&N suggest that: "If the free market were allowed to operate, the market would clear with a price of per-



haps \$3.50. Consumers would complain but would willingly pay the higher price rather than go without fuel.” (S&N p. 80)

It is absurd to jump to the conclusion that consumers would be willing to pay the higher price without providing any evidence whatsoever to support that assertion. To be sure, some would be able to afford the higher price but others would not have the money to do so. Admittedly, the market might work better if incomes were equally distributed but that is far from being the case and as a consequence, the increase in the price of fuel would hurt the poor much more than it would the wealthy. Again, S&N show no sympathy whatsoever to the plight of the poor. As a matter of fact, there are no poor people at all in their models although there are no less than 45 million poor in this country, hardly a slight oversight.

S&N continue by suggesting smugly that politicians would “fret” about the high prices of gasoline. Yet, these

are legitimate concerns, because at a time of national calamity it is not fair to have the rich more advantaged at obtaining gasoline than the poor for whom a rise in gasoline prices can be a painful development. Hence, the concerns of the politicians are legitimate. Letting queuing up for gasoline do the rationing is much more democratic in such an emergency, because time is the only resource that is distributed equally. In contrast, money is extremely unevenly distributed.

Obviously, letting market processes do the distribution in such an emergency favors the wealthy unduly unveiling the imbedded hidden biases of mainstream thinking. Hence, depicting government’s helping the poor as “interference” (p. 79) in the free market is a distorted interpretation of the problem. Price controls on necessities such as gasoline are legitimate in a market in which there is a skewed distribution of income, particularly if other policies to redress the inequalities are not open to the policy makers.

40 years of the Cambridge Journal of Economics

A conference is to be held to mark the first forty years of the Journal and look ahead to the next forty.

12-13 July 2016

McGrath Centre, St Catharine’s College, Cambridge

The Cambridge Journal of Economics was first published in March 1977. The journal has been publishing papers from the full range of heterodox perspectives for four decades providing a forum for theoretical, applied, policy relevant, interdisciplinary, history of thought and methodological work. It has throughout had a strong emphasis on realistic analysis, the development of critical perspectives, the provision and use of empirical evidence and the construction of policy.

Call for Papers

Submissions of abstracts (max 500 words) are welcomed in any area of heterodox economics and related social science disciplines. The conference organisers are particularly interested to receive submissions that relate to the following themes:

- Industrial Districts/ Organisation/ Industrial Strategy
- Philosophy and Methodology
- Development
- Economics and other social science disciplines
- Economic History
- History of Economic Thought
- Gender, employment and job quality
- Monetary theory and institutions
- History of Ontological thinking in Economics
- The future of Economics teaching

Abstracts will be considered by the Editorial Board of the *Cambridge Journal of Economics*.

Deadlines:

Abstract submission: **9 November 2015**, abstracts should be sent direct to CJE40@cpes.org.uk

Notification of acceptance by: **31 December 2015**

Full details regarding registration available at: <http://www.cpes.org.uk/events/40yearsce/>

Enquiries should be sent to events@cpes.org.uk

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If you are interested in providing a review on any of the titles, please contact the relevant publication editors or send an email to [Edward Fullbrook](#).

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<http://et.worldeconomicsassociation.org/files/WEA-ET-4-2.pdf>

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Patrizio Lainà

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