**Economics in Society: The Ethical Dimension**

**WEA online conference starts next month**

This inaugural WEA conference is on a hot topic. It is already arising considerable interest and promises to lead to a lively debate.

Papers received so far:

- **Manuel Couret Branco**, ‘*Economics for Human Rights*’
- **Vicky Chick**, *Economics and the Good Life: Keynes and Schumacher*
- **Thomas Colignatus**, ‘*Boycott Holland*’
- **George DeMartino**, ‘*Professional Economic Ethics: Why Heterodox Economists Should Care*’
- **Sheila Dow**, ‘*Codes of Ethics for Economists: A Pluralist View*’
- **Peter Earl**, ‘*Real-World Economics and the Ethics of Teaching*’
- **Alan Freeman** ‘Towards an assertive pluralist code of conduct for economists’
- **Karey Harrison** ‘*Ontological Commitments of Ethics and Economics*’
- **Arun G. Mukhopadhyay**, ‘*Corruption of Economics, Growth, Fetishism and Maldevelopment*’
- **Wendy Olsen**, *The Ethics of the Economics of Working Time of Couples: Theory and Applied Statistical Methods*
- **Alicia Puyana**, ‘*On Ethics and Economics*’
- **Peter Radford**, ‘*Ethics in Economics: Where is it?*’

Several other well known members have pledged a contribution. There’s still time for you to submit a paper: get it to Peter Radford (*pacr@mac.com*) or Alan Freeman (*afreeman@iwgvt.org*) before 19th February.

Register to join the debate before March 5th at [http://weaethicsconference.wordpress.com/](http://weaethicsconference.wordpress.com/). The online conference will last four weeks and we will make the papers and the comments available as citable texts and as a permanent record of the discussion.

More conferences are being planned. Provisional titles include:

- **Economic indicators**: led by Merijn Knibbe
- **Latin America: the economy and economics**: led by Juan Carlos Moreno and Alicia Puyana
- **Social capitalism and custodial regulation**: led by David Westbrook

We look forward to seeing you online in the near future. And send me your suggestions for future conferences – as well as offers to lead them – to me.

Grazia Ietto-Gillies *iettogg@lsbu.ac.uk*

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“Increased interactions with disciplines that economists have often mocked as unscientific would greatly improve economists’ understanding of the real world and would be more truly scientific.”

Robert Johnson, 2012

(Executive Director of the Institute for New Economic Thinking)

From: “Economists; a Profession at Sea”, *Time*, 19 January 2012
Editorial: Open debate...  

by Stuart Birks, k.s.birks@massey.ac.nz

This second newsletter focuses less on organisational matters and more on economics. It has been encouraging to see the level of interest and the diversity of viewpoints that are forthcoming. You will see more of this in future issues.

It is sometimes said that legitimate research should be presented as a contribution to well-established bodies of knowledge. Latour (1987) suggests that a lack of referencing results in a weak position. It is only necessary to discredit (or ignore) one paper, rather than to also undermine each of the supporting references.

This tilts debate in favour of dominant perspectives. The approach can have a serious weakness, however. It is the same weakness that, unless recognised, serves as a barrier to pluralist approaches. Groups with dominant perspectives tend to be inward-looking. If anything is taken from outside, it is likely to be taken as given, without regard for ongoing controversies or subsequent developments in its area of origin. To quote Entman (1993, p.51), "Because of the lack of interchange among the disciplines, hypotheses thoroughly discredited in one field may receive wide acceptance in another."

Heterodox approaches may simply set up alternative perspectives, while failing to pursue ongoing cross-fertilisation of ideas. It may be that pluralistic approaches, maintaining ongoing involvement in alternative areas and disciplines, may be less subject to this failing. To that end, we should be welcoming of contributions from areas (countries, perspectives, data sources) that do not currently have a high profile in economics research.

As it is becoming recognised that dominant economic thinking has specific cultural and ideological roots, there arise new issues to investigate, and new perspectives on existing issues. Future issues of this Newsletter will attempt to illustrate this diversity, and your contributions are welcome.


The two new WEA journals are open for business

The World Economics Journal and Economic Thought are now fully functioning. Our editors have worked hard behind the scenes to be able to open with the following impressive list of papers. These are now posted on line and the Discussion Forum on them is open.

http://discussion.worldeconomicsassociation.org/

You are invited to contribute reviews of these papers and thus help the editors in their decision on whether to publish or not. There are already several comments on the papers: we would welcome more. Please visit the sites and see which area of specialism suits you best, read the relevant paper and write a review.

ECONOMIC THOUGHT

Richard van den Berg An Englishman, a Scotsman, an Irishman and monetary theory in the mid-eighteenth century

Sheila C Dow What Kind of Theory to Guide Reform and Restructuring? A focus on theoretical approach

Donald Gillies Economics and Research Assessment Systems

Geoffrey M. Hodgson On the Limits of Rational Choice Theory

Tony Lawson Mathematical Modelling and Ideology in the Economics Academy: competing explanations of the failings of the modern discipline?

Irene van Staveren An Evolutionary Efficiency Alternative To The Notion Of Pareto Efficiency

WORLD ECONOMICS JOURNAL

Alice H. Amsden Grass Roots War On Poverty

Milford Bateman and Ha-Joon Chang Microfinance and the Illusion of Development: from Hubris to Nemesis in Thirty Years

Romar Correa The Determination of Profits

Roberto Frenkel and Martín Rapetti External Fragility or Deindustrialization: What is the Main Threat to Latin American Countries in the 2010s?

Michael Hudson Incorporating the Rentier Sectors Into a Financial Model

Ali Kadri Revisiting Arab Socialism

Paata Leashvili Objective laws governing formation of general equilibrium and business cycle

Rajah Rasiah and Jebamalai Vinanchiarachi Drivers of Technological Upgrading and Economic Synergies: Evidence from Four Dynamic Clusters in Latin America and Asia

David Rosnick and Dean Baker Pension Liabilities: Fear Tactics and Serious Policy

Patrick Spread Companies and Markets: Economic Theories of the Firm and a Concept of Companies as Bargaining Agencies

Patrick Spread Comparative advantage and the format of companies

Patrick Spread Adam Smith: Neoclassical or money-bargaining?

Yinan Tang and Ping Chen Diagnosis of Financial Crisis by High Moment Deviations and Changing Transition Probability

John F. Tomer Brain Physiology, Egoistic and Empathic Motivation, and Brain Plasticity: Toward a More Human Economics

http://www.worldeconomicsassociation.org/
A fervent plea on behalf of the wretched of the earth for 2012 and beyond

By Geoff Harcourt (gch@unsw.edu.au)

The interrelated capitalist world is in a state of crisis, unstable and almost out of control. The orthodox theory behind the lunatic policies being followed has little connection to the actual world it is meant to interpret and explain. Social unrest, prejudice, racism, self-interest, lack of compassion, anarchistic or worse forces are being unleashed: all the outcome of finance capital being out of kilter with industrial and commercial capital.

What can persons of good will and humane attitudes do about this? First, we need to fashion new sensible theories which illuminate and explain our world, which recognise unbridled capitalism for what it is, a powerful organ of production and accumulation but basically irrational and cruel to those least able to protect themselves, endogenously creating inequality and unfairness. So, secondly, we need to recommit ourselves to regaining full employment and a more equal and equitable distribution of income and wealth. We need also to create green friendly infrastructure to help cope with the reality of climate change and global warming; and to design institutions that minimise the impact of greed-induced risk taking in financial and other markets to overcome the excesses of short-term behaviour, to bring to the fore again the possibilities of sane long-term development, first sensed by Adam Smith and stressed again by Maynard Keynes in his last writings and speeches before his death in 1946. We need to take on board Kalecki's desire that standards of life would gently rise over time for all citizens, while accumulation would be guided by long-term needs as well as to sustain full employment. In this way perhaps the present madness of self destruction may be, if not tamed completely, at least brought under reasonable control.

Let this be our hope for 2012

G C Harcourt

Better than a picture...view Geoff's autobiographical video (15 May 2007) at: http://www.sms.cam.ac.uk/media/1120008

What is economics? Can we learn from “What is history?” by Stuart Birks

“What is history?” That was the title of a series of lectures by E H Carr, presented at Cambridge in 1961 (Carr, 2008). They have been influential for historians, and there have been many thought-provoking developments since then, as described by Jenkins (1995). The issues raised in this literature may be relevant for economics, hence the title of this short piece.

Carr talks of historians selecting what, of the available information, will be the facts, and how they will be seen. “The facts of history cannot be purely objective, since they become facts of history only in virtue of the significance attached to them by the historian” (Carr, 2008, p. 120). He identifies the part played in this process by the prevailing social and political scene. Using a fishing analogy, he suggests that what you catch depends on where you fish and the tackle you use (2008, p. 23). The same could be said of economics, although the selection of data and techniques are largely prescribed, giving less individual discretion and being grounds for much current criticism of the mainstream.

Carr is also critical of history presented as the clash of abstract ideas instead of struggles, “between groups of individuals in society, each group striving to promote social policies favourable to it and to frustrate social policies inimical to it” (2008, p. 34). Harcourt (see video link in piece above) describes ideas of individuals which have subsequently evolved into bodies of thought with their own advocates.

The actions of groups and the rules of engagement affect the prevailing perceptions. Also for economics, political, ideological, religious positions may shape perceptions of the economy. In a homogeneous world, such factors may not be important, but in a dynamic and diverse world they are important qualifiers on the application of bodies of thought (note Carr’s criticism of economic rationality on pp.82-3).

On historians measuring success, Carr suggests that it is “radically false” to base this on “some supposedly abstract standard of the desirable” (2008, p. 128). This could also be seen as a challenge to the economic concept of market failure.

Carr describes economics as, “either a series of mathematical equations, or a practical study of how come people push others around” (2008, p. 140). We might have some way to go to meet his second description. He sees the determinant of major changes in society being, “the development and use of modern methods of persuasion and indoctrination” (Carr, 2008, p. 142). This cannot be addressed when the units are individuals and preferences are assumed exogenous.

Jenkins (1995) talks of Carr as modernist, listing a large number of alternative theories which have arisen in subsequent years to challenge that approach. These do not negate the points raised above. Rather, they suggest that even more emphasis should be placed on the influence of subjectivity, particular interests, competing groups, and the environment that shapes perceptions and decisions. Openness to pluralism may facilitate such developments.


http://www.worldeconomicsassociation.org/
The Non-Equilibrium Social Science group (NESS)

The World Economics Association is committed to intellectual pluralism. This is a very welcome breath of fresh air in the world of economics.

The European Commission is also willing to take a broader perspective in terms of the programmes it funds. In November 2011, our co-ordinated action on Non-Equilibrium Social Science (NESS) received a three year grant from the Commission.

The purpose of NESS (http://www.nessnet.eu/) is to try to ensure that the social sciences are put on a proper footing for the 21st century. A key focus of the group is economics, where the equilibrium approach (though dominant) struggles to capture the economic realities we observe in the world today. But we are interested in all the social sciences.

Modern computer techniques have made possible both the integration of larger information sets and the exploration of disequilibrium behaviour. However, we are still in the infancy of making the best use of simulation and multidisciplinary analysis. Too often vested interests get in the way of real advance. NESS aims to establish a network of leading scholars and practitioners from all social science disciplines to apply and focus these advances to make real progress in understanding complex social and economic systems.

NESS is a genuine trans-disciplinary venture. Yi-Cheng Zhang is the founder and editor of the World Econophysics Forum at Fribourg. Mauro Gallegati, Paul Ormerod and Bridget Rosewell are economists. Andrzej Nowak is a psychologist who heads the Centre for Complex Systems at the University of Warsaw. David Hales is a computer scientist, and Jeff Johnson a mathematician.

Prior to receiving EU funding, the group had been active. An initial meeting, involving a wider group of scholars, was held in Switzerland at the end of 2010. The key scientific themes which emerged were:

1. The nature of the agent and rules governing interaction in establishing social and market behaviour
2. The identification of the social system and organisations and the levels of analysis appropriate to individual problems
3. The potential for prediction and the ability to understand the consequences of any policy interventions


NESS has established links with China, and Yougui Wang of the Business School at Beijing Normal University has joined the core team.

NESS is oriented towards more formal modelling approaches, but ones in which process and time are of fundamental importance. Most real world social and economic behaviour takes place out of equilibrium.

We will be holding a series of workshops and events over the next three years, and would be delighted to hear from like-minded social scientists from anywhere in the world.

Paul Ormerod (pormerod@volterra.co.uk)
Yi-Cheng Zhang (zinppy@gmail.com)
Non-Equilibrium Social Science group (NESS).

Neo-liberalism—a view from the periphery

By Margaret Ann Harris (magannharris@gmail.com)

The neo-liberal project has continued the age old imposition of western market ideology and political consensus on small island developing states (SIDS). The alternative to embedding new liberalism was exclusion from international trade. Playing fields were to be levelled by decentralized global governance and tariff reduction. Less protectionism was to bring about growth. Labour and capital would be redistributed with some losers and winners followed by a relatively painless re-ordering. The market would resolve it all. SIDS bought into the rhetoric. They accepted the mantra that trade liberalization was needed to create a competitive economy despite the contention by Joseph E. Stiglitz (2000) that neo-liberalism’s productivity and growth processes were unnecessary for growth and far from well understood. The idea of the classless, global consumer resonated well with the notion that islands could be repositioned to the center from the periphery.

Those seeking to challenge the consensus quickly capitulated. The WTO, led by OECD countries, financial institutions, banks and transnational corporations offered little compromise. A differentiated policy for these tiny ocean rocks was not an option. Traditional Special and Differential Treatment altered as developed countries induced their tiny partners to open borders to foreign goods and tastes. The EU made it clear to SIDS negotiating Economic Partnership Agreements the penalties would be heavy for failure to agree.

The polemic heightened on how to prevent liberalisation causing a deterioration of developing countries’ living standards. If as Mukerji argues, Uruguay Round commitments have not been realized (Trebilcock & Hosew, 2005, p.499), this has been far less so for SIDS. Since the 1994 General Agreement on Tariffs and Trade, the SIDS with rare exceptions, have experienced:

• Little improvement in market access conditions
The Cambridge Social Ontology Group  

by Bruce Littleboy b.littleboy@uq.edu.au

Cambridge is not what it used to be. The Economics Faculty has become more orthodox over the last twenty years. The controversies centred there, productive and unproductive, have died down. But there are still people generating new ideas who will continue to attract thinkers of heterodox leaning. Notable are the meetings of the Social Ontology Group run by Tony Lawson. (When I first read of it, I misread it as Social Ontology Group. Someone should establish such a group. The unchecked generation and spread of pernicious doctrine itself deserves specialised study.)

Ontology refers to (pausing to look it up) the branch of metaphysics concerning the nature of being. It’s not the same as epistemology, the study of what constitutes valid knowledge and how one attains it, though the two often become entwined. For example, the use of mathematics may be an inappropriate means to analyse the social world and the rules that emerge. Unrealistic assumptions may be appropriate to the subject matter of physics, but realism may be preferable for probing the social world. If words can reach where equations cannot, we need to try to nail down a robust vocabulary for effective discourse.

And this is typically what is done in meetings held in the Faculty tea room that attract attendance from 4 to a dozen or more. There is a rhetorical dialectic, and the mantle of Socrates slides between Tony and his brother Clive. Their jousting is a feature, an encounter of an almost irresistible force and an almost immovable object (carefully avoiding saying who is which). But it is very much an ensemble performance. Steve Pratten comes from London, and some even commute from Oxford (to be there by 9am, which impressed me). There are diverse overseas visitors and bright PhD students. Tony strongly prefers people to attend several successive sessions. One of the resulting pleasures is watching how we gradually convince ourselves to overturn what we had appeared to have settled upon weeks earlier.

Discussion has centred in recent years (at least during my intermittent visits) on responding to John Searle’s philosophical work. A recurrent theme is the interplay of social structures, rules and individual agency. (It’s more fun than it sounds.)

There are also Realist Workshops that meet in the evenings with papers presented and discussion invited. Attendance is wider than at the Study Group and topics are more diverse, and visitors to Cambridge may find the workshops an enticement to attend the Study Group.

Cambridge remains a beacon of hope, and Tony Lawson and his fellow interlocutors are keeping alive a sense of collegiate scholarship. It is a joy to be part of a group of smart people, even if one soon suspects that one is the least smart of those present.

Don’t forget the rhetoric… Public debate on ideas is viewed by many as being political competition between opposing groups. The “rules of the game” include much more than the simple presentation of a case. There is an extensive literature on strategies that might be used. One short, basic introduction is the “Debunking Handbook”, available at: http://www.skepticalscience.com/docs/Debunking_Handbook.pdf
Economists need not fear the dominance of the mainstream in the universities too much. It is not hard to give students a broader, critical perspective. In my experience, conventional courses are far better received with the inclusion of some history of economic thought. This has resulted in far more critical questions from students as they delve more deeply into the material. A sample of their favourite themes follows.

First and foremost, they see that the *Homo Oeconomicus* is not an individual, but a homogeneous fraction of a perfectly identical mass. They therefore are able to see that the mainstream is, rather than the praise of individualism, the celebration of conformism.

Market and equilibrium and the static/dynamic issue come second. Students are quick to grasp their political implications, the absurdity of the mainstream, and the intellectual problems ensuing from its dominance (for instance the imprudence of basing economic policies on the theoretical idea of market, the lack of a mainstream economic dynamics, the fact that nonetheless the mainstream is never doubted by its practitioners). Not only do they wonder how mainstream dominance could be achieved and kept, but they also lose interest in the supposed alternatives, for they realize that they either ape the mainstream method or limit themselves to point out some of its faults.

As for marginalism, Paolo Sylos Labini put it perfectly: a partial derivative is a partial derivative. As a consequence, the best way to make them seriously consider marginalism is to tell them that it is a way of thinking about issues rather than an attempt to faithfully reproduce reality (examples of firm efficiency are needed to make this point clearer), and also that there is no alternative if you want to study mainstream economics. Such discussion also helps introduce some methodology issues, which are well received by students.

The micro-macro passage is also a favourite topic for the students’ destructive instincts. The fallacy of composition is very easy for them to see, while they are puzzled at the sudden dropping of the mathematical elegance of microeconomics (and so am I, unless I look at it from a historical point of view). Whenever we have time to discuss this, students get excited by realizing their critical capacity and I feel I am enticing them to further study.

Some valuable insights can be gained from the topic of innovation. Students see that it is impossible in a mainstream environment, that it clashes with the conformism (mentioned above) of *Homo Oeconomicus*, who is necessarily blind to novelties, and that economic theory ignores the history of capitalism, conflating revolutionary innovations together with routine innovations. This is an apt time to introduce Schumpeter and, for example, Gordon (2000). However, economics majors often get nothing but economics, so they are not given again the means to explore history and so whatever results one achieves may only have limited, short-term benefits.

International economics is also a most enlightening topic. After wondering about the need of a graphic to explain comparative advantages, students quickly learn that my course is about the exceptions to the theory, which leads them onto the need for considering international political economy, something not included in the average economics curriculum, under- or post-graduate.

International economics is also the type of course where you have to necessarily explain neoliberal ideas. Some might find it difficult, for, while there are pamphlets opposing and denouncing the ideas, there is no chapter on them in any theory textbook. However, students are quick to learn that the ideas are highly relevant because neoliberal notions pertain to actual economic policies, and therefore are what politicians, bureaucrats and mass media operators peddle. Again, a historical approach here is badly needed.

Unless I have been living on another planet for the past 30 years, my (international) experience as a student and as a teacher is that it is not by blaming university curricula that we win the battle against the dominance of the mainstream. Students see the absurdity of the mainstream without difficulty, and when they do not say it loud it is because they know it is useless. Although a change for the better in the curricula would of course greatly help, the question lies rather in our not appreciating the students and their capacities enough. This leads to important considerations.

I am afraid in fact that the fault lies in the profession. In the first place, we should learn the meaning of the words alternative and other. If more of us did, we would not waste time in useless discussions of supposed alternatives which are not so much other approaches as variations on well rehearsed themes. Imagine if a course in logic or philosophy were introduced: how many of us would pass the test of explaining any economic idea to students who know how to reason?

Perhaps we ourselves should go back to the theoretical basics, learning again to challenge theories as a whole, rather than single aspects. We should learn to go back to what we used to be when we were students, and reason again in general, without ever losing that intellectually radical approach that we have instead forgotten, with the consequence that we stifle our students.

We should consider the idea that it is not the mainstream only that does not work. Economics and political economy need a basic re-think. We should give more room to our students. Sometimes, as I have already said, all it takes is to introduce in conventional mainstream courses a few hours of history of economic thought. What prevents us from doing this?

In the past year, there have been widespread protests by young people opposing government policies in both democratic and undemocratic countries. The protests in Israel, involving over 8% of citizens, differ from other protest movements, having clear goals.

For the last three decades, Israeli governments from the right and the left have implemented extreme Neo-Liberal policies. This has caused an increase in poverty and a growing gap between the rich and the rest.

A clear majority of the working citizens of Israel are unable to offer a decent future to their children.

The central points of the government policy during those years were:

- A decrease in the government share of the market (government expenditure/GDP) from approximately 70% in the 1980’s to about 43% in recent years. Expenditure cuts continued even in years of large surpluses.
- Tax reforms lowering direct progressive taxes, and raising indirect taxes. In 2009 over half the revenue was from indirect taxes, compared to the OECD median combination of 70% direct taxes and 30% indirect.
- Decreasing the national debt at a rate above that set by the state budget, although the debt is 76.2% of GDP while the OECD average is above 100%. This is despite the fact that the debt is mostly internal. The stated reason is to meet the requirements of the Maastricht Treaty, which Israel has not signed, and even the signatory countries do not meet its requirements of a 60% debt rate.
- Undemocratic management of the decision-making processes in the government and the Knesset. The Arrangements Law avoids the usual law-making procedures. Deliberations take place under severe time limitation with a small number of participants who go over its sections as one whole, and it all takes place in the Finance Committee, which has a built-in majority of the ruling coalition. Although considered as part of budget deliberation, there are no limitations on the content of the laws or how many can be included (the law has grown from 18 sections in 1985 to 180 in some years).
- The privatization of essential government services and a shift to user-pays. For example, public housing stock has shrunk, while there has been a real estate bubble in the most populated areas of Israel.
- Undermining of trade unions. This includes freezing wages, including the minimum wage, lax enforcement of labor laws, and the creation of new and exploitative methods of hiring through outsourcing and subcontracting. Now nearly half of the work force earns minimum wage or less.
- The broad-line cut method in which every achievement by a social organization is transformed into a cut in some other government office’s budget. The result is not only a gap between Jews and Arabs or men and women; it is also a generational gap. This is the context in which the social protest movement arose. An alternative policy direction is proposed in the publication, “Litmus Paper”. The main goal is a reduction in income inequality. The four planks of the platform relate to economic policy, social rights, state infrastructure and democratic processes. The publication is available in English at: [http://www.scribd.com/doc/62309599/Litmus-Paper-Dror-Israel](http://www.scribd.com/doc/62309599/Litmus-Paper-Dror-Israel)

Miscellaneous thoughts

“The myths began with the Enlightenment, and the first one goes like this:

_The truth will set us free. If we just tell people the facts, since people are basically rational beings, they’ll all reach the right conclusions._

But we know from cognitive science that people do not think like that. People think in frames...To be accepted, the truth must fit people’s frames. If the facts do not fit a frame, the frame stays and the facts bounce off.”


Models versus the influence of the individual... “the evident fact that power upsets all mechanical foresight and gravitates toward the natural leaders”

Walter Lippmann (1913) _A Preface to Politics_

Parallels with the internet? Lowering postage charges in the US in the 1850s would give:

“...the benefits of the diffusion of knowledge, increasing the mutual acquaintance of the people of this wide republic, and thus increasing the stability of our government, the permanence of our union, the happiness of the people, and the perfection of our free institutions.”

Joshua Leavitt (1848) _Cheap Postage_
Late in 2011 Madam Lagarde, the new director of the International Monetary Fund, praised Mexican policy makers for their handling of the Mexican economy. In 2011, Mexican gross national product was expected to grow by 4 per cent. Christine Lagarde's comments echoed all international institutions' remarks on Latin American economic prospects, be it the World Bank, the International Monetary Fund, the U.N Economic Commission for Latin America and the Caribbean, or newspapers such as the Financial Times or the Economist, just to mention two.

The comments suggest that Latin America was better prepared to confront crisis than any other countries elsewhere in the world. This was due to structural reforms, privatization, trade liberalization and fiscal discipline. However, it may be a short-sighted perspective.

Others suggest that Latin America's adjustment to handle the debt crisis of the early eighties is a good lesson to solve the current crisis affecting Europe and the United States. They forget two facts. First, many countries' adjustment programmes were implemented under military rulers or, as in Mexico, by perfect dictatorships (the nickname Vargas Llosa gave the PRI regime). It has been pointed out that the more severe the regime the more coherent was the implementation of the adjustment and austerity programmes. The Pinochet regime is the model of coherent implementation of structural reforms. Second, the structural reforms and the liberalization of trade regimes have lead to almost two decades, for Mexico and many other Latin American countries (In constant 2000 dollars, it took Latin America about 16 years to regain the level of GDP per capita registered in 1980-1981). Democratic regimes have encountered serious difficulties in preserving the economic model institutionalized under authoritarian regimes. In effect, several manifestations of unrest and popular dissatisfaction forced the Chilean democratic governments to introduce important changes in the model and to implement universal social security programmes. Recent student protests may impose changes to the privatization of Chilean universities implemented under the military dictatorship. These claims are closely mirrored in Colombia where, in November 2011, student strikes forced the Santos government to withdraw the legislative initiative to reform the financing of public universities.

As table No. 1 illustrates, recent Latin American economic performance is acceptable only if the short term is considered. During 2008-2010, the years of a major global downturn, the 8 biggest Latin American countries registered the lowest expansion since 1900, 50.7 per cent lower that the average rate for 1900-2010 and 56.8 per cent below the record pace during the import substitution process, 1945-1980. Smaller countries and Caribbean Islands grew at even slower pace.

### Table No. 1. Annual Average Rates of GDP Growth of the Eight Larger Latin American Countries

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<tbody>
<tr>
<td>Argentina</td>
<td>1.4</td>
<td>1.02</td>
<td>1.38</td>
<td>1.47</td>
<td>1.05</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.2</td>
<td>1.61</td>
<td>3.38</td>
<td>1.27</td>
<td>2.62</td>
</tr>
<tr>
<td>Chile</td>
<td>2</td>
<td>1.02</td>
<td>1.01</td>
<td>3.55</td>
<td>0.75</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.9</td>
<td>1.50</td>
<td>2.17</td>
<td>1.89</td>
<td>1.23</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.7</td>
<td>1.00</td>
<td>3.06</td>
<td>0.58</td>
<td>-2.06</td>
</tr>
<tr>
<td>Peru</td>
<td>2</td>
<td>2.37</td>
<td>2.11</td>
<td>0.97</td>
<td>3.19</td>
</tr>
<tr>
<td>Uruguay</td>
<td>1.7</td>
<td>1.18</td>
<td>1.26</td>
<td>2.24</td>
<td>4.30</td>
</tr>
<tr>
<td>Venezuela</td>
<td>2.7</td>
<td>4.14</td>
<td>1.65</td>
<td>0.20</td>
<td>-3.27</td>
</tr>
<tr>
<td>8 L American</td>
<td>1.7</td>
<td>1.73</td>
<td>2.00</td>
<td>1.52</td>
<td>0.98</td>
</tr>
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<td>USA</td>
<td>2.2</td>
<td>2.36</td>
<td>1.22</td>
<td>1.88</td>
<td>-0.85</td>
</tr>
</tbody>
</table>


As Table 2 shows, Latin American countries had relative good economic performance for just four to five years to fall again into the negative in 2009 followed by unstable and uncertain growth thereafter. Despite the relatively fast recovery after the crisis in 2009, we see wobbly growth and the prospects of a considerable slow down for 2012 and 2013. Unsteadiness is present and expected rates of growth are insufficient to give decent employment to all new entrants to the labour force. Therefore, unemployment and informality are growing and approaching 40 per cent of total employment. In some countries, Brazil, Mexico, Colombia, Peru, Bolivia, informality is even higher, nearing 65 per cent. It is probable that the projections will be downgraded due to the poor growth expected in Europe and the USA, bring even further deterioration in the labour market.

The effect of such a the labour market trajectory is rather low productivity growth. This imperils the region’s ability to face competition in domestic and international markets, despite stagnating or decreasing real wages in Mexico and other countries. Since the mid nineties, the main source of growth has been the steady increase in the rate of participation of the labour force rather than productivity growth, which has practically stagnated, registering an annual growth of just 0.75%, below the USA and of course well behind China or other competitor countries.

Two distinct patterns of integrating into the international economy and growth performance divide Latin American economies.
Brazil used the room to expand public expenditure to
The second group, mainly Argentina, Brazil, Uruguay
agricultural products while Mexico became a net im-
lower recovery than the second, which took advantage
more severely affected by the 2009 crisis and shows
first group looks more prone to severe contagion, was
tries exported mainly raw materials and resource based
mainly to the USA. On the other, South American coun-
America. On the one side, Mexico and Central America
specialized in assemblage manufactures and exporting
main to the USA. On the other, South American coun-
ties exported mainly raw materials and resource based
manufactures to a more diverse set of countries. The
first group looks more prone to severe contagion, was
more severely affected by the 2009 crisis and shows
lower recovery than the second, which took advantage
of the strong Chinese demand for raw materials and
agricultural products while Mexico became a net im-
porter of these. There is another important distinction.
The second group, mainly Argentina, Brazil, Uruguay
and Chile, responded to the 2009 crisis by expanding
public expenditure and fiscal deficit. Mexico did the op-
posite, contracting public expenditure. Argentina and
Brazil used the room to expand public expenditure to
stimulate domestic demand, and they increased the
poverty increased in 2005-2010 not only as a conse-
quence of the 2009 crisis, but also from stringent mone-
tary and fiscal policies, in contrast with Argentina, Chile
and Brazil. Nevertheless, all Latin American countries
face the threat of the economic crisis in Europe and the
USA and it looks like it may be impossible to prevent a
repetition of 2009. Another disturbing fact is the pro-
tracted revaluation to contain inflation.
There may be room for monetary and fiscal expansion
to maintain economic activity, increased employment
and productivity, but the question is: will there be the
political will? In fact, sovereign debt is relatively low. In
2010, the average total external debt of Latin American
countries was 19.1% of GDP and for the Caribbean the
average was larger, at 34.8% of GDP. Debt service is
moderate both as percentage of exports and public ex-
penditure. All countries have contracted public expendi-
ture, current and capital formation, and have reduced
public deficit and accumulated vast foreign reserves to
prevent speculative attacks against the national cur-
rency. All these facts suggest that there is room for ex-
pansionary policy which could be sustained over a long
period without risking debt problems. Faster growth
would stimulate labour demand and income along with
internal demand. With a large informal sector, there is
room for economic expansion without risk of inflation
induced by increases in wages above increments in pro-
ductivity.
All in all, Latin America shows that the export lead
model did not guarantee the rates of growth of the
economy, or the improvements in productivity to
improve labour incomes and to compete in the domestic
and the international markets. The region has the flexi-
bility to implement anti-cyclical policies to promote the
economy and incorporate larger segments of the work-
ing force into the modern productive sector. It needs
this in order to pay the accumulated social debt.

Table No. 2: Growth Performance and Prospects for Latin America

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Table No. 3: A Stubborn Problem: the Incidence of Poverty in Latin America

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<td>17</td>
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Source: Own elaboration based on CEPAL, La brecha de la Equidad, 1997 and Panorama Social de América Latina, several years.

http://www.worldeconomicsassociation.org/
The Third WEA Journal

Economic Thought
Economic Thought, the new online-based journal of the World Economics Association, is ready to accept article submissions from scholars working in the history of economic thought, economic history, methodology of economics and philosophy of economics. The journal welcomes submissions addressing all aspects of the aforementioned sub-disciplines with an emphasis on original and path-breaking research.

In line with the objectives of the World Economics Association, the journal will seek to support and advance interdisciplinary research that investigates the potential links between economics and other disciplines as well as contributions that challenge the divide between normative and positive approaches. Contributions from outside the mainstream debates in the history and philosophy of economics are also encouraged. In particular, the journal will seek to promote research that shows how much market output changes given a change in market output by a single firm.

Maths for pluralist economics
by Steve Keen S.Keen@uws.edu.au

A lot of heterodox economists oppose the use of mathematics in economics, and often for very good reasons, as Tony Lawson in particular lays out (Lawson, 2005, 2006). However there is still a place for mathematics in economic analysis, for several other very good reasons. Firstly, mathematics can be used to expose bad logic—and often that, rather than mathematics per se, is what is at fault in Neoclassical Economics. My favourite illustration here is that mainstay of a First Year indoctrination into economics, the “horizontal demand curve”. Students are taught that, though a market demand curve slopes downwards, the demand curve perceived by the individual competitive firm is horizontal.

That is mathematically impossible, and all it takes to prove it so is one of the simplest rules of calculus, the “Chain Rule”.

The theory says that the slope of the individual firm’s demand curve is zero. The Chain Rule says that we can break this slope down into two bits:
- the slope of the market demand curve, multiplied by
- how much market output changes given a change in output by a single firm

The first a negative number, so the only way that the slope of the individual firm’s demand curve can be zero is if the second part is zero. But under the “Marshallian” assumptions used in introductory economics, this is one: since firms are supposed to not interact with each other, if one firm increases its output by one unit, then market output will also rise by one unit.

There’s much more to this argument than I’ve covered here (see Keen & Standish, 2010 for the full analysis), but this shows that maths can be used to expose bad logic, and bad logic abounds in neoclassical economics.

Secondly, maths can be used to clarify arguments that are simply too complicated for most people to solve verbally. My favourite here is the long-running controversy in Circuitist literature over whether it is possible for the firm sector to borrow money from the banking sector, pay interest on the borrowed money, and make a profit.

The existence of monetary profits at the macroeconomic level has always been a conundrum for theoreticians of the monetary circuit...not only are firms unable to create profits, they also cannot raise sufficient funds to cover the payment of interest. In other words, how can M become M’? (Rochon, 2005, p. 205).

The argument was that, if firms borrowed $100 from the banks, and the banks charged $5 interest, then the firm sector would have to pay back $105 when there was only $100 in existence, and they wouldn’t be able to do this.

This “conundrum” was simply the result of a confusion of a stock—the initial sum of money created by a loan, denominated in dollars ($)—with a flow—the income that the stock of money could generate while in circulation, denominated in dollars per year ($/year). Given a productive economy (one that, at least prior to consumption, produces more outputs than inputs) and a reasonable velocity of circulation of money, that $100 stock could turn over say 3 times a year, generating $300 in income. This could be $250 p.a. in wages and $50 p.a. in profits, and therefore the $5 p.a. firms had to
pay to banks to service the debt is no big deal.
It’s easy to say this after it has been proven using a mathematical model (Keen, 2010), but it took a mathematical model in the first place to develop a definitive solution and show simulations of it.

That leads to the third argument in favour of mathematics in heterodox economics: mathematics is not the same thing as equilibrium analysis, which is the real problem with neo-classical economics. All their mathematics has been directed at reaching equilibrium solutions, when modern mathematics is quite at home with modelling permanently far-from equilibrium, non-ergodic systems (see Keen, 2009 for some examples).

There is every reason for being cautious about how and when mathematics and computational techniques are applied in economics, but mathematics per se is not the enemy: bad logic is (for more on this, see Keen, 2011 Chapter 16).


**Book review...**


This book is a refreshing, accessible and well-written journey to knowledge of earlier times which has been purged from economic science and forgotten. Hudson is sadly justified when he admits that he saw very little need to update his book, which was first published in 1992, by discussing newer theories. Too little of significance has happened in the theory of international trade in recent decades. Mainstream theory is still based on assumptions, which would lead to a levelling of incomes internationally, rather than the polarization that reality stubbornly produces.

Hudson takes us back to the pre-classical economists: He shows how the mercantilists understood the polarization mechanisms that play out when more advanced countries trade with more backward countries. These mechanisms result from the fact that market forces by themselves benefit nations with a technological advantage in industrial production, because the production of industrial goods exhibits steeply increasing returns to scale and is subject to fast technological progress. While backward nations also benefit from the exchange in the short term, they suffer in the long term, because they fall further and further behind in the technological race and their capacity for income creation erodes.

Hudson links competing views on how the economy works to competing interests of leading and backward nations, of creditors and debtors. The fact that Ricardo was a stockbroker becomes more than a biographical detail in Hudson’s analysis. The same is true with the timing of the shift from British mercantilism to the laissez-faire theories of Smith and Ricardo. It occurred after Britain had firmly established herself as the leading industrial power using the protectionist recipes of their Mercantilist forbears. The switch to a free-trade oriented theory served to keep more backward countries from trying to defend their nascent industries against British predominance. While British dominated trade, there was a long-standing controversy between continental European and American writers on one side, and British writers on the other side. Only after the US had industrialized and achieved secure economic dominance using the protectionist recipes of the mercantilists did US economics shift to the same free-trade philosophy.

The dispute between mercantilist and free traders over the centuries takes up the first part of Hudson’s book.

The second part focuses on the financial side of international trade and investment. Here, he juxtaposes structuralist views on one side with a monetarist viewpoint. It emerges that the build-up of international debt, which mainstream economics largely ignores, has important adverse consequences for the countries on the debtor side. For many of them, debt service dominates their balance of payments and depresses their exchange rates and productivity.

In this debate, the same names tend appear on the opposite sides as in the mercantilist vs. free-trade debate. This is no wonder, as the monetarist viewpoint is the viewpoint of strong creditor nations, just like the laissez-faire viewpoint. The monetarist view ignores mundane things like a production structure, which is rigid in the short term. It pretends that you can just squeeze internal absorption and all production capacities, which are not needed for depressed domestic consumption any more, will automatically be used for producing exports to help with the debt service. In such a viewpoint, only the taxing power of government is the limit to the amount of debt service a country can bear. And the taxing power of government can be significantly enhanced by doing away with democracy.

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On Friedman’s F53...

Mark Blaug, on Friedman’s “The Methodology of Positive Economics” (F53), wrote:

"Friedman may have won some methodological battles with F53 but he lost the methodological war because he went on to write A Monetary History of the United States, 1867–1960 (1963) with Anna Schwartz - a thick examination of the historical evidence for the theory that money causes prices and not the other way round - while the rest of the economics profession put its faith in thin corroborations by means of econometric regressions."


A long tradition...

“[T]he dreamer, the story-teller...no longer speculated with the un-trammelled freedom of the stone-age savage; authoritative explanations of everything barred his path; but... men were to be found dissatisfied with the appearances of things, dissatisfied with the assurances of orthodox belief, uneasy with a sense of unread symbols in the world about them, questioning the finality of scholastic wisdom.”

H G Wells, from The World Set Free

Contributions wanted...

Are you interested in contributing to the WEA Newsletter?

We are looking to cover a broad range of perspectives and recognise that experiences and issues vary around the world. Submissions are welcome that illustrate this diversity and indicate possibilities. This includes discussion on the experiences of smaller countries and less publicised areas.

The difference between real world phenomena and theoretical representations is also important, as are methodological and cross-disciplinary observations. Other topics of interest include the significance of definitional issues and available data in framing discussion, and alternative perspectives that may merit more attention than currently achieved.

In general, we welcome short pieces (approx 500 words) highlighting one or two specific points of interest as illustrated in this and past issues.

Also of particular interest are:

- Reports summarising the topics covered in country-specific economics/policy blogs (priority issues, aspects being emphasised, policy approaches considered);
- Country specific “media watch” on economic issues. What are the public being told? Who are the spokespersons? Is a diversity of views being presented? Is there any investigative reporting or in-depth analysis?

Email offers on these or other areas to Stuart Birks, k.s.birks@massey.ac.nz

Upcoming deadlines!

The Future of Evaluation in Modern Societies 14-15 June 2012, Saarbrücken, Germany
http://futureofevaluation.ceval.de

How to bring joy into economics: Revisiting Tibor Scitovsky (1910-2002) 26-27 June, Gaeta, Italy
Abstracts deadline 1 March 2012
http://www.convegni.unicas.it/Scitovsky

14th International Joseph A Schumpeter Society Conference Brisbane, Australia, 2-5 July 2012
Abstracts deadline 24 February.
http://www.aomevents.com/ISS2012

Political Economy and the Outlook for Capitalism AHE, FAPE, IIPPE,Paris, 5-8 July 2012
http://www.assoeconomiepolitique.org/political -economy-outlook-for-capitalism/

Review of Radical Political Economics, call for papers, special issue on full employment, deadline 30 September 2012
http://www.urpe.org/rpe/Announcements/ CallForPapers/ CFPSpecialIssueFullEmployment.htm

Books of possible interest...

FYI, emails have been received about the following new economics-related books, giving publishers’ promotional material. Here are the titles and links:

- Rita Yi Man Li, Singapore, UK, US and Australia) part looks at sustainable development in China, "Building Our Sustainable Cities" (first part looks at sustainable development in China, Singapore, UK, US and Australia)
- Vladimir Pokrovskii, Econondynamics (includes "the theory of production of commodities from a physicist’s standpoint") Peter McManers Green Outcomes in the Real World (green, but with "hard-edged reality")
- Stuart Birks k.s.birks@massey.ac.nz