

WEA Commentaries*

A publication of the World Economics Association.
 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.

* Formerly the World Economics Association Newsletter

Volume 11, Issue 3

October 2021

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An egalitarian carbon tax: revenue-neutral and dual policy package

By ***Fausto Corvino***

Why a carbon tax?

People normally pay the private cost of CO₂, but not the social cost. The private cost is given by the price of each unit of CO₂, usually measured in tonnes, which in turn is the result of a series of market contingencies: the costs of extracting, processing, and selling fossil fuels, taking also into consideration the interplay between supply and demand. The social cost of CO₂, instead, is obtained by summing the private cost of CO₂ to the climate damage it is expected to cause (Cho 2021, Wagner et al. 2021). The climate change we are experiencing now is nothing more than the result of the negative CO₂ externalities of the past.

If we set aside the complex ethical question of responsibility for past emissions (Meyer & Sanklecha 2017), a simple solution to this market inefficiency is to get people to internalise the social cost of the CO₂ they emit, through a carbon tax. This is not only because it is ethically sound (e.g., in virtue of the polluter pays principle), but also because it is the most effective (and non-coercive) way to make people reduce their emissions to a level that we can consider as economically efficient (Metcalf 2019: 35-71; Rabe 2018: 1-12) – keeping into consideration both the marginal benefits of CO₂ emissions and the resulting climate damage.

Which carbon tax?

The carbon tax is usually seen as part of a broader fiscal policy, consisting of both taxation and revenue spending. Regarding the taxation part, there are basically two different approaches. A first approach consists in setting the market price of CO₂ on its social cost (SCC). Economists usually calculate SCC through complex mathematical models that take into account future climate change based on the amount of GHGs expected to be in the atmosphere, the effects that certain marginal changes in average temperature will have on the planet, socio-economic data, and the discount rate of future utility (see Nordhaus 2017; Fleurbaey et al. 2019).

SCC is not only a useful fiscal yardstick but also a more general and fundamental parameter of economic policy. It indicates how rational it is to invest in climate mitigation today by deducting avoided climate damage from investment costs. So, for example, the medium-term cost of an economic project that requires N dollars and produces an emission reduction of X tonnes of CO₂, should be calculated by subtracting X*SCC from N. The assessment of SCC is both a technical question (what data to include in the models) and an ethical-political one (what discount rate to apply to future utility), so it is not surprising that there are different numbers attributed to SCC. The task force set up by US President Obama, for example, quantified the SCC upwards in 2013 at \$51 (measured in 2020 dollars) per tonne of CO₂. His successor, Trump, reduced SCC to as low as \$1, effectively excluding global damages from the total cost of CO₂

emitted in the US and more than doubling the discount rate of future utility. Newly-elected Biden then requested a recalculation, and his advisers provisionally reset the SCC to \$51, reserving a year to study the issue further (Samuel 2021).

The second approach is to set the carbon tax rate not in relation to the SCC but to a specific mitigation target (Kaufman et al. 2020). Suppose, for example, that a country wants to reduce its emissions by half by 2030. The national carbon budget for the climate target is calculated and a carbon tax rate is set to achieve this target. Obviously, an automatic adjustment mechanism will have to be introduced to keep the tax rate steady on the basis of intermediate climate results achieved or missed (Metcalf 2019: 111). This type of approach shifts some of the moral and economic responsibility for past emissions onto the present generation. If the mitigation target is an ambitious one (e.g., it is in line with the Paris Agreement's goal of limiting global warming to 2/1.5 °C, compared to pre-industrial levels) and the SCC is considered to be around \$50 (as postulated by the Obama administration), a SCC-based carbon tax will be lower than a target-based carbon tax (see Stern and Stiglitz 2021).

It can be discussed at length whether the carbon tax is regressive or not, i.e., whether it hits the poor more than the rich or vice versa (Andersson 2021; Carattini et al. 2019; Metcalf 2019: 91-98). But the fact remains that it is a tax that raises the price of a range of goods and services that everyone needs, from electricity and heating that we use in our homes, to transport, especially on wheels. As such, it obviously meets with social resistance, especially from the poorer classes. As I said before, however, this is only part of the story. Because the carbon tax generates revenues and it is how the revenues are spent that determines whether and how regressive or progressive the tax reform of which the carbon tax is a part is (there is no room here to discuss the magnitude, but suffice it to mention that according to Gilbert Metcalf a carbon tax of \$50 per tonne of CO₂ would produce a fiscal revenue of \$200 billion in the first year alone, see Metcalf 2019: 87).

There are two major ways of investing carbon tax revenues (Marron & Morris 2016; Marten & van Dender 2019; Fried et al. 2020). One is to give revenue back to the people, either through reductions in other taxes or simply through rebates (which can be more or less equal). This is the revenue-neutral carbon tax (RN-CT): the government obtains climate mitigation without increasing its budget. Another method, instead, consists in using revenues to expand government spending, i.e., by earmarking revenues for new projects (either climate or non-climate related) or for reducing public debt. This is a revenue-positive carbon tax (RP-CT).

A RP-CT tends to be regressive, and it also reinforces inequality. The new jobs and the new sectors (climate, AI,

technology, and so on) that could be financed through the carbon revenues require on average a high know-how; therefore, what you take away from the poorest in terms of lost jobs and higher bills, you cannot give back to them through new jobs and new opportunities (at least, not in the short term, before reconverting the poorest part of the workforce). On the contrary, a RN-CT, if designed in the right way, can become an egalitarian policy that not only tries to solve the climate issue but also corrects macro-economic distortions that are independent of the environment.

An egalitarian use of carbon revenues

There are two main possible ways of devising a RN-CT - and by combining these two methods in different ways, different policy packages can be obtained. One way is to give people equal rebates. By doing so, you obtain a fiscal policy that is slightly egalitarian (Metcalf 2019: 95-98; Cecco 2018). The poorest will probably get back a bit more than they paid through the carbon tax. Those in the middle will see their situation almost unchanged. The richer will receive back a bit less than they were taxed. This is in substance a fiscal reform that seeks to maintain the status quo quite unaltered - except for some redistribution from the top towards the bottom. And also, the fact the everyone is entitled to carbon revenues conveys the message that the carbon tax will not be too intrusive in pre-tax social arrangements - it will seek, as far as possible, not to allocate net costs to anyone. Alternatively, you may want to earmark revenues for certain social groups, thus altering existing power equilibria: e.g., you could distribute the revenues between the poor and middle classes, either through tax credits or even direct transfers (see Paoli and van der Ploeg 2021).¹ This policy would be progressive, but it would involve two problems: where very distortionary taxes are in place (e.g. a high tax wedge, as we will see later), this policy would mobilise a lot of money but would not correct the problems of economic inefficiency (although it would stimulate consumer demand); it would meet with strong political opposition from the wealthiest, and it would therefore be difficult, if not impossible, to get approved.

Arguably, a progressive and leftist carbon tax should be revenue-neutral through a dual policy package: first, it should use some revenues to offset price increases for the poor and middle classes; second, it should use the remaining part of revenues to lower taxes on labour income (both employed and self-employed income) for those below a middle-income threshold. I will briefly examine three reasons why such a revenue-neutral and dual-package carbon tax (RN-DP-CT) could (and should) become central in the political agenda of the European Left - even though much of what I will suggest can reasonably hold also with respect to other countries.

The first reason is simply that the tax wage on labour in the euro area is one of the highest in the world: in some countries, like Belgium, Italy, Austria, France and Germany,

the net pay of the employee is over 45 percent lower than the cost of her/his labour for the employer (OECD 2021). The high cost of human labour creates several problems for the working class. Entrepreneurs have all the interest in accelerating investments in automation, faster than any society committed to a sustainable technological transition can stand; and imbalances of market power allow employers to shift the burden of the tax wedge onto workers, by reducing wages. High taxes on self-employment income, in turn, force low- and medium-income self-employed workers in a race to the bottom on the costs of their services (this leads to a reduction in their income and obviously creates strong incentives to evade taxes).

By lowering labour costs (for low- and middle-income earners), a RN-DP-CT is more egalitarian than any RP-CT, because it creates new opportunities for all workers, not simply those who could be easily employed in the mid- and high-tech sectors, and at the same time it shields the unemployed from price increases - the unemployed do not get better off, as the employed, but they neither suffer a net loss. Conversely, a RN-CT that simply gives rebates to the middle and poor classes would benefit both employed and unemployed equally, but it would not be as supportive of economic growth as the RN-DP-CT - which, it should be recalled, can benefit the unemployed indirectly, by enlarging employment opportunities.

The second advantage of a RN-DP-CT is that it will redistribute wealth from capital towards labour in a way that is supposed to be welcomed by the Left: i.e., by taxing more capital that yields income without a proportional increase in labour demand, rather than capital that creates new job opportunities. If, for example, you earn income exclusively in the form of rents, by managing your real estate, or through financial activities, the RN-DP-CT will make you a net-loser.² If you are a worker, instead, the cost of your labour will go down, so there will be more (and perhaps even better paid) job opportunities: what you lose with the carbon tax, you get back again through your job contract, in the form of tax cuts.

Therefore, if you are a worker, the RN-DP-CT can make you better off in two ways. First, if you are a low/middle-income worker, your energy consumption is likely low enough to allow you to obtain net benefits from the carbon tax reform. Second, if you also start ethically spending your income, shifting to green products and green energy sources, you are likely to increase even further your net income in the medium term. This is both because you will reduce the impact of the carbon tax on your consumption and because the price of green goods could be reasonably expected to fall over time.

The third argument in support of a RN-DP-CT is that we live in extremely unequal societies. World billionaires now control the same amount of wealth as has been spent by all G20 governments in response to the Covid-19 pandemic, roughly 11.95 trillion dollars (Oxfam 2021: 23). At the same

time, the richest 1 percent is responsible for 15 percent of global emissions from 1990 to 2015 (and the richest 10 percent is responsible for 52 percent of global emissions, see Oxfam 2020: 3). I see no moral reason why a carbon tax reform should not aim, among other things, to take wealth away from the richest.

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¹ Consider also that if you believe in trickle-down economics, you may also want to devise a RN-CT that earmarks the rich, i.e., using carbon revenues to lower corporate taxes (see Fried et al. 2021)

² You will pay more than you get back, unless you become an ethical investor and consumer.

WHAT IS ECOLOGY? What Economics Should Have Been

By **Gregory A Daneke**, Professor Emeritus
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"It is always sound business to take any obtainable net gain, at any cost and at any risk to the rest of the community." **Thorstein Veblen**

"Where equilibrium economics emphasizes order, determinacy, deduction, and stasis, complexity economics emphasizes contingency, indeterminacy, sense-making, and openness to change... This view, in other words, gives us a world closer to that of political economy than to Neoclassical theory, a world that is organic, evolutionary, and historically-contingent." **Brian Arthur**

"Unless we understand what, it is that leads to economic and financial instability, we cannot prescribe -- make policy -- to modify or eliminate it. Identifying a phenomenon is not enough; we need a theory that makes instability a normal result in our economy and gives us handles to control it." **Hyman Minsky**

"The panarchy is a representation of how a healthy socioecological system can invent and experiment, benefiting from inventions that create opportunity while it is kept safe from those that destabilize the system due to their nature or excessive exuberance." **C.S. Holling**

Why Economics is Not an Ecological Science?

One of my early encounters with the term ECOLOGY, was a 1960s pop-culture poster with a small boy, holding his father's hand, precariously perched atop a mountain of garbage, and the line read "daddy what is ecology"? Most folks assume it is simply a synonym for environmentalism, when it is much more than that. In the human or cultural context, it is less about tree hugging and much more about hugging (or mostly mugging) one another. Ecology (from the Greek: οἶκος, "house" and -λογία, "study of") is the science of relationships between living organisms and their physical environment, and how they co-evolve and adapt or maladapt overtime. Successful adaptation generally involves the cultivation of sufficient resiliency to sustain networks of creatures and their ecosystems in times of dramatic environmental change. The term was first used to characterize an emerging subfield within zoology by German scientist, Ernst Haeckel in his 1886 book, the *General Morphology of Organisms*. He drew heavily upon the work of famed taxonomist, Carl Linnaeus as well as the legendary Charles Darwin. Interestingly enough, given this discussion, Linnaeus had called

this new approach "the economics of nature" and Darwin had referred to his as the "polity of natural systems". While economics would have benefited greatly from returning the favor, the myopic school of thought that came to dominate economics in the modern and post-modern eras has shunned ecological thinking.

As an academic discipline economics has actually been organized to have little use for the concepts of ecology (especially: population biology, systemic science, ethology, natural history or biogeography). With the rise of Neoclassical economics, it was specifically designed to be a sterilized, frictionless, and hermitically sealed void in which to suspend economic activity. But of course, this a-societal, a-political, a-historical enterprise was an epistemological impossibility and actually constituted an ideological agenda. This agenda became more pronounced following WWII and the rise of Neoliberalism. The static methods of Neoclassicism were rejuvenated by its clarified and enhanced ideology. It was especially rearmed to ignore the evolution of humans and their institutions, as well as their interactions with natural environment. Beyond the diaspora of intuitionists to the backwaters of academia, efforts at securing policy respectability for a tangent known as "Ecological Economics" have been more difficult than mixing oil and water (literally). I suspect that much of the antipathy for ecology (or any systems thinking for that matter) was about the fear of having their fatuous (if not fascist) core assumptions and other soiled ideological linen flying in the breeze.

Strange as it may sound, economists tend to maintain that the ECONOMY IS NOT A LIVING SYSTEM, but rather a set of formalized and unchanging principles (expressed in equations pilfered from outmoded physics texts). This methodological retardation was fortified with the rise of Neoliberal ideology. By way of this alliance, economists discovered new ways to obscure their Neoclassical incongruities, as well as further conceal their own ideological proclivities. With the aid of wealthy patrons and well-paid politicians, not to mention loads self-promotional skull-duggery (e.g., fake Nobel prizes, partisan institutes & think tanks, etc.), the current cult of economics passed itself off as the purest of social sciences. Inconvenient social and ecological reality could merely be swept aside by *ceteris paribus* (all things being equal) and/or made outside the scope of their analysis. Eventually, this façade of scientism, combined with their service to wealth and gained them a prized seat in the halls of power. At this point they could not admit to intellect reservations or make many alterations.

Ecological reasoning (especially dynamic cultural evolution), nonetheless, has become a mainstay in most the other social sciences. Studies of ancient artifacts provided

clues to how modern societies evolve or devolve for some time. However, it was not until the 18th century that these notions solidified into an awareness of human and cultural evolution alongside Darwin's insights into the natural selection. These observations and speculations, in turn, influenced the likes of Comte and Voltaire as well as Morgan, Huxley and Spencer. It was Herbert Spencer, a social theorist, who actually coined the phrase "survival of the fittest" in his misinterpretation of Darwin, and his popularized apology for the excesses of the Gilded Age. It was a botanist and paleontologist, Lester Frank Ward, who became the "Father of American Sociology" by challenging "Social Darwinism" and forging many of our modern understandings of human ecosystems.

Economists were never so open to new ideas, they thought they already had all the understanding they needed. Just as Neoclassicism (a term coined by Thorstein Veblen) was beginning to take hold there was a less subdued dust up of sorts with ecological thinking, and it was effectively banished from the realm. Recall that Thorstein Veblen was not just asking his colleagues *Why is Economics Not an Evolutionary Science?* He not only challenged the mainstream's misguided preoccupations with equilibria, he highlighted how deeply embedded cultural imperatives (like the predatory impulse) impact economic outcomes. His opus on the "leisure class" (a popular best seller at the time) was, loosely speaking, an ecology of the Gilded Age and his corpus of work also includes ingredients of environmental economics. Thus, despite being a defrocked economist, he set the stage for an authentic ecological approach, one which could meld classic institutionalism ("evolutionary economics") with the new tools and concepts from complex adaptive systems.

Is a Little bit of Ecology a Dangerous Thing?

MBA programs, being highly concentrated, have often struggled with providing their students with only enough economics to make them exceedingly dangerous. Before the last financial melt-down, even business undergraduates were doing damage. Juniors, minoring in financial engineering, were dropping out to run hedge funds. A little economic ecology might be a disaster as well. Partial tools and concepts of ecology from complexity theory are finding increasing applications (in finance, market studies, etc.). Yet, awareness of the overall institutional ecology remains low. Ecological elements are often so fragmented they merely provide lessons half-learned. Highly selective or misapplications can further undermine institutional capabilities, particularly in the realm of financial instabilities. They could also augment the naturalistic misrepresentations of clearly engineered segments of the economy.

Over the last few decades complexity scientists from multiple disciplines (mathematics, physics, computer science, as well as zoology and bio-ecology) have sought to inform their economist colleagues on the advantages of a clearer and broader ecological perspective, but to little avail. Complexity scholars have joined heterodox economists in describing the irrationality and inefficiency of markets (e.g., Benoit Mandelbrot, Doyne Farmer, and Andrew Lo), the galactic levels of systemic risk and ludicrous levels of leverage in banking and finance (Robert May & Andrew Haldane, John Geanakoplos, Armin Haas, and Cars Hommes), and/or the violations of the laws of physical (thermodynamic) laws (Frederick Soddy, Nicholas Georgescu-Roegen, Herman Daly, etc.) Yet, for the most part, they tend to under-emphasize the institutional forces which keep all this retrograde reasoning in place.

It has only been relatively recently that I noticed complexity scholars who study sustainability openly acknowledging how economics constrains policy options (note: <https://doi.org/10.1038/s41893-019-0419-7>). However, by couching their discussion in terms of behavioral economics, they have made it much easier for the mainstream to co-opt, catalogue, and then cast aside their findings altogether. I find that many social ecologists are naive about "speaking truth to power" and/or merely avoid economic analysis in the same way economists have avoided them. The rare exception is my late friend, Buzz Holling, and his various colleagues (especially Lance Gunderson) and their work on a comprehensive system called PANARCHY. While demonstrating several commonalities and transfer points they recognize that natural and social systems are very different kettles of fish (with the latter often stinking of rot). Moreover, "adaptive cycles" (much more vital than the business or even longer financial cycles) often include collapse and complete reorganization on scale rarely seen in social systems, until now perhaps. Unfortunately, what might be called the Resiliency School of economics has received little attention by card carrying economists.

Many sustainability researchers seem to assume that their ecological findings would simply speak for themselves, and the sociology of knowledge would fill in the rest. After all, who could deny we live on a finite planet with obvious *Limits to Growth*? Well economists for one, and financial executives for another. Among themselves they asked, how can we extract onerous rents, usurious interest, and outrageous fees if economies (or at least debts) were not growing exponentially? Economists fashioned a cover fairy tale suggesting that for each and every dwindling resource a magical technological substitute could merely be plucked from the ether. Several economists, even those not receiving corporate funds, set aside

the science and mythology entirely to engage in vicious personal attacks. Many of us only tangentially connected to the Club of Rome were branded as “traitors to the American way of life” or much worse. Only just recently was it more widely acknowledged that the collapse projections of the first study (which were not even the central point) appear to be pretty much spot on. If anything, we are well-ahead of schedule.

Tilting at Windmills?

In the wake of continuing financial crises and the accelerating climate calamity, WEA scholars are once again touting a new economics which draws upon ecological theory and methods (including complexity tools) enroute to a post-Neoliberal world. In a recent issue of the *Real-World Economics Review* (#96) scholars and policy practitioners provided extremely useful insights into the necessity for a more ecological version of economics. Neoliberalism itself is a rapidly evolving target, however. Its pace of adaption (especially as a smoke screen for financialization) may have stalled a bit given the protracted transition and financial antagonism of the heir apparent to hegemonic power, China. It nonetheless has more frightening incarnations in store, I suspect (e.g., “The Great Reset”). To paraphrase Mark Twain, reports of Neoliberalism’s demise are greatly exaggerated. For most of my more than a half century career it was eagerly anticipated, yet even after its latest debacle it has demonstrated mind-boggling resiliency. If Neoliberalism is indeed dead, its favorite son Neofeudalism has matters (if not Mandarins) well in hand.

This should inspire a redoubling of our efforts, and various rich insights and ingredients for an alternative economics and economy can be found in RWER-96. Jamie Morgan provides a masterful postmortem of Neoliberalism, but does not actually secure a death certificate. Plus, he observes how ideas can survive and perhaps thrive in semi-exile even after real events have rendered them *persona non-grata*. Those of us waiting for the rooftop helicopters to begin the policy evacuations should not be holding our breath. Morgan reminds us the Post-Neoliberal “World” (even absent the ideology) may still be a long way off. He further poses a bit of a chicken and egg problem by suggesting that its ETA is contingent upon ecologically prudent policies actually coming to fruition.

All of the authors provide similarly cogent observations, but still leave one wondering what’s really next, and how do we get from here to there. Richard Norgaard sets forth the challenges of unbridled growth and climate denial, naming our current predicament the “Econocene” (implying our economic ideas and institutions are mutually causal with environmental crises). Moreover, he seems to suggest that we might need to dump economics altogether. However, his idea that it can be replaced with “reality and morality” seems a bit tepid. For

one, Neoliberal’s shape much of what many people accept as reality, and secondly, they can readily forge better policy alliances with fake, yet powerful, moralities (e.g., religious fundamentalism, or what have you). Neva Goodwin does an admirable job of incorporating Veblen’s and Polanyi’s ecological observations regarding consumerism and the displacement of community-based values. Plus, William Rees offers practical solutions to the degrowth dilemma via policies for prosperity through “contraction”.

Nevertheless, only when we get to James Galbraith, do we get to the heart of the matter, --- “what is economics anyway”? His answer is not completely satisfying, but at least he heads us in the right direction by pointing out that it is more a policy cartel than a scientific enterprise. He also fortifies this notion with references to classic institutionalism (e.g., George, Veblen, Commons) thermodynamics, and complexity theory, as well as reminding us of his father’s concept of “countervailing power” (e.g., anti-trust, consumer protections, strong labor unions, et cetera). I would merely add that as economics emerged as a policy platform it was imbued with specific objectives, such as to protect the power of financial elites. Ergo, it is already “real” in that it accepts the burgeoning of the 1%, and its antiquated concepts (e.g., Newtonian mechanics) are mostly an illusion at this point. Its pragmatism, however, is not as essential as its legerdemain, particularly how it gets the 99% to buy into the fairy tale of every pauper an embryonic prince. As John Steinbeck once observed, socialism never caught on in America, because the poor saw themselves as “temporally embarrassed millionaires”. It will be very interesting ecologically speaking to see how this mythology holds up in a society with significantly more chutes than ladders.

Further aid for my project is provided by Stahel and Spash & Guisan. It is noteworthy that my own efforts at “institutional ecology” have never been more than a very faint cry in the intellectual wilderness (See, <https://www.jstor.org/stable/10.3998/mpub.16009>), and my policy experiences were as disheartening as the saying about “avoiding seeing sausage or policy being made” suggests. Hope, however, springs eternal, and I can use all the help I can get.

Stahel points out that despite coming from the same root, only ecology has held on to its homeyness. Economics is primarily focused on what the Greeks called “chermatistics” (the art of acquisition). He invokes Polanyi, Mauss, and contemporary anthropological views to cast a new set of fundamental elements of economics as essential social processing, including: “Self-sufficiency, Reciprocity, and Redistribution as well as Commerce and Plunder”. In essence, an ecological perspective would recognize a preponderance of plunder. As Veblen suggested predation is built into our systems and institutions are continually redesigned to enhance it (e.g., removing in-

heritance taxes, protecting capital gains, etc.). Our current configuration has managed to bend redistribution upward and mistakes plunder for commerce. Stahel maintains that we must substantially recalibrate these elements if we are to have a functioning economy, let alone a science of economics. But recalibration is a bitch and powerful interests can always re-rig things. Moreover, those of us who have worked within the rigged systems and battled unsuccessfully to shadow price “unpriced values” and/or construct viable multi-attribute utility functions were confronted with the “horse and rabbit stew problem” (how many rabbits do you have to add to reduce the taste of horse?). Economics can become a much bigger paddock, and yet still mostly house one trick ponies.

Spash & Guisan assert a new direction by answering Galbraith’s question that for them economics is “the study of social provisioning”. As such, it should be governed by “critical realism” and “social-ecological” reasoning. Indeed, it should. Unfortunately, along with undermining environmental values, Neofeudalism is already well on its way to co-opting ecological notions to paper over its ideological inconsistencies. This sleight of hand actually began over 60 years ago with von Hayek’s efforts to assert some sort of impossibility theorem regarding social interventions. In this new feudal era, ecological methods could be further abused to resurrect discredited notions such as Social Darwinism, Skinnerian behaviorism, and even Eugenics.

While we have been carping about an ecological approach to economics, what leading economic historian, Phillip Mirowski, labeled “the Neoliberal thought collective” have evolved and moved on to their next pillaging opportunity. We criticize their antiquated and fallacious theories, while they are probably fully aware of their panoply of paradoxes (e.g., speculation vs. instability). As Mirowski noted in his book, *Never Let a Serious Crisis Go to Waste (How Neoliberalism Survived the Financial Meltdown)*, “they never look back” and they never apologize for past misrepresentations. It may have been pure folly to think of all this as some sort of intellectual faux pas. Exploiter’s exploit, and Neoliberalism serves as primo enabler.

Disparate Times and Desperate Measures?

Economics, as a policy enterprise, is already uniquely primed to exploit catastrophes, if not engineer them in the first place. Ecology, however, by including economics in the role of prime mover in its own right, might also aid in its unraveling. For example, Veblen’s broader ecological observations can be tested and used to explore our own Gilded Age on steroids. We have the benefit of now knowing that evolution moves in fits and starts and is often very far from any sort of equilibrium, even

“punctuated”. If we could focus on these “bifurcation points” (qualitative state changes), then we might be able to alter the processes as well as the products. Just as evolution leaves behind a good deal of flotsam and jetsam (pre-adaptions or “spandrels”), institutional malfunctions might be repurposed. Anastasia Nesvetailova, Director of the Political Economy Program at London’s City University, draws heavily upon Veblen in her studies of money & banking. Specifically, she invokes his “theory of business sabotage” to explain increasing financialization, and applies his notions of excessive predation to explain her ideas about “overcrowding” in the ranks of “shadow banking” activities. Given positive feedback loops, many species evolve past their survival niche (via “mutually amplifying distortions”). Cutting through the crap of “too big to fail”, might be a useful starting point.

Of late, we have allowed our financial systems to evolve (make that metastasize) completely out of control. They have always been a bit dodgy, yet the mega-bifurcation point (exactly 50 years ago) when Nixon unilaterally abandoned the Bretton Woods Agreements, fundamentally changed the nature of money and accumulation. It was not just the enshrinement of fiat currencies, but the wholesale manipulation of the so-called FIRE industries (finance, insurance, real estate), not to mention stock valuations and executive compensation. Asset inflation has displaced most other forms of accumulation. - Aided and abetted by respected mainstream economists, financialization has literally blown by anything that stood in its way (especially the with quasi-governmental central bank foxes guarding the hen house and underwriting “moral hazard”). As the lack of luck would have it, this era also corresponds with the meteoric rise and merger of Neoliberalism, itself an evolutionary sidetrack (originally designed to counter global communism and dismantle the New Deal). In Holling’s terms we have achieved the pinnacle of maladaptation and “brittleness” (low resiliency). It is a double whammy of both the “rigidity trap” and the “poverty trap” where the US becomes the richest “banana republic” in human history. What the elder Galbraith labeled “The Bezzle” (institutionalized embezzlement) is now the *raison d’état* of the entire enterprise.

Go Oikos or Go Home

Given the socio-political resiliency of Neoliberalism and its sheer power over academic and practitioner careers as well as the economy at large, it should come as no surprise that it can easily capture and subvert many an earnest attempt to incorporate institutional ecology into policy discussions. Even such a powerful alternative approach of complex adaptive systems can be reduced to “agent-based” modeling and graphed onto existing ideological prerogatives, as was done with game theory and behavioral economics. Moreover, given a certain non-

chance regarding internal contradictions, the mainstream can merely defuse certain inconvenient insights with a few fake Nobels. Conflicting ideas can merely be pasted-on like so many travel stickers on an old suitcase -- been there, done that, bought the t-shirt.

Consider those otherwise excellent efforts to school finance professionals in the use complexity tools and concepts (e.g., May & Haldane), and how they are mostly being utilized to improve the performance of individual financiers. They are touted as ecological studies, but agent-based is not systems based. While simulations of heterogeneous agents mashing around are essential to study complex social dynamics, it is the interactions between individuals and their institutions that should be the unit of analysis, not the individuals themselves. It is worth pointing out individualism is mostly an ideological ruse anyway; economists deal with aggregates and only speak of individuals in the context of idealized behavior or homo-economicus. Moreover, studies of nonlinear "systemic risk" in highly leveraged global banking networks demonstrate that the entire system can fail due to cascading collapses even when most individual banks are relatively solid and solvent. This type of dynamic was exposed back 1994, when a single hedge fund, LTCM (assisted by its' own Nobel economists), nearly brought down the global economy.

The stock market, a hive of dysfunctional dynamics if there ever was one, has also been a focal point for complexity theorists, starting with the father of "fractal geometry", Benoit Mandelbrot decades ago. However, I wonder whether current applications that tout themselves as ecological are more interested in discovering the next magic formula for foolproof investing. Once again agent-based inquiries, while opening new vistas, do not necessarily provide a panoramic perspective. In a recent study by Scholl et.al., entitled *How Market Ecology Explains Market Malfunctions* (<https://doi/10.1073/pnas.2015574118>), illustrates how the interaction of different trading strategies can recombine and periodically crash the market and the gravely damage the economy at large. While impressive, is this type of microecology ecological at all? Does it actually get us any closer to the larger web of processes and products such as "mark to magic" accounting, the corporate commitment to buybacks and stock manipulations, the incestuous rating agencies, and the enormous shift from equity to debt financing, not to mention the now nearly permanent extreme emergency measures of the Federal Reserve? Another oddity of this particular study is that, despite having the legendary Doyne Farmer as a co-author, they tend to discount his pathbreaking work on the predator prey moderating dynamic (via the famed algorithm of Lotka and Volterra).

It is worth re-emphasizing that complexity is about emergent properties and processes. It is, thereby, system-

ic in character (with the whole often greater than its parts). It cannot merely be passed off as an improved picture of autonomous agents. Personal choices obviously matter, but they are often shaped and reconfigured by systemic choices, made with-or-without us. Veblen foreshadowed these types of discussions in his rejection of bio-determinism (as well as Marxism). We cannot escape our environmental limitations completely, but we can perhaps improve our resiliency by reducing rather than worshipping our cultural malfunctions and systemic maladaptions.

Policy research guided by an adaptive systems perspective could redress many an unfortunate evolutionary process. It could help us unravel the often-intractable Gordian knots of our institutionalized maladaptions. Institutional ecology could begin by recognizing that our economy is a highly unstable set of evolutionary processes and that certain elements and institutions fuel and exploit that instability, at the immediate peril of entire ecosystems. One man's (actually several person's) absolute ruin is another man's arbitrage opportunity. That is, many powerful interests have institutionalized over-reliance upon an economy that acts in direct conflict with those adaptations that would make the system more resilient and dramatically reduce human suffering. This cannibalization of the economy includes, in part, the institution of the mainstream. It is not that they just cannot see it, they are it. Hence, merely classifying and patching certain flaws in stock and money markets or even the entire global banking system, will not necessarily address the deeper and darker evolutionary detours we have already taken. What were these systems originally designed to accomplish and how have they devolved to produce such immense reservoirs of "phantom wealth" and economic dislocation? We might even come to appreciate that many of the financial shenanigans we are now forced to take for granted may have actually arisen out of temporary stop-gap measures designed to cope with our diminished control of global commodities such as oil (e.g., "petrodollar agreements"). Did these clandestine financial disarrangements further forestall our energy transition? Schumpeter recognized that financialization normally rises toward the end of a growth cycle and then falls back, only this time it has not. So how did we get stuck on this piss-poor "fitness peak" of a perpetual Ponzi scheme?

Ah, there are so many ecological mysteries to solve. So, let's get on with it, and let the devil take quasi-ecologists as well as the hindmost mainstreamers. In the final analysis, Economics and Ecology are like the twins in Dumas' swashbuckling tale, *The Man in the Iron Mask*, where one became the villainess prince and the other the innocent prisoner. It is past time to switch them.

The Theory of Competition of F.A.Hayek as an Inspirer of the Neoliberal Turn of the 1980s

By **Arturo Hermann**

Introduction

Various authors consider the Austrian theory as belonging to heterodox economics, but this seems inappropriate, particularly for the competition theory¹ of Friedrich August von Hayek. In fact, it is not enough for an economic theory to be different (more in appearance than in reality) from neoclassic economics to be considered “heterodox”. And this especially if this “different theory” leads to the same ideological implications as neoclassical economics (in particular in its most extreme versions).

But what are, in summary, the main differences between neoclassical theory and Hayek’s theory? For the neoclassicals, individual economic action leads, when markets are sufficiently “perfect”, to efficient equilibria, in the sense that firms minimize costs and consumers maximize utility. If, on the other hand, the markets are highly imperfect — for example, due to the presence of monopolies and oligopolies, information asymmetries, externalities — these optimal equilibria are not realised. The general prescription of neoclassical economists is therefore *laissez faire*, which, however, should be accompanied by competition policies aimed at approaching the perfection of the markets as much as possible.

The Main Aspects of Hayek’s Competition Theory

With respect to this position, Hayek’s theory² can be so synthesized: competition is a discovery procedure whose final outcome, the so-called “spontaneous order” — he mentions as examples sporting events, examinations, the awarding of government contracts, the bestowal of prizes for poems and scientific procedures — cannot be known in advance. This being the case, there is no point in trying to obtain perfect markets where optimal equilibria can be achieved. In fact, in all this uncertainty, one thing is certain: in a capitalist market system — even if there is an oligopolistic structure that severely limits competition — it is better to adopt the most complete *laissez faire*. In fact, every public intervention is automatically associated to the “road to serfdom” of the “real communistic countries”.

This theory has had a considerable appeal, even in the progressive field, because it seems more flexible and “dynamic”. And it certainly has the merit of pointing out the imperfections of public action. In reality, however, this theory has also given rise to a “fundamentalism of the market” — that constituted also for Milton Friedman and other mainstream economists an important point of reference — which laid the basis for the neoliberal reac-

tion that began in the late 70s and got full strength in the 80s.

As a matter of fact, Hayek was among the main founders of the ultraliberal Mont Pelerin Society and was an important inspirer of the policies of Reagan and Thatcher. Such “inspiration” concerned also the monetary side, where Hayek was a fervent advocate of a monetarist oriented policy. A policy based on high real interest rates that — under the official mantle of inflation-targeting — gave rise in the 1980s to the massive financialisation of the economy, wide economic disparities and other imbalances that culminated in the 2008 economic crisis.

This fundamentalism of the market is much more ideological and superficial than the theories of the early neoclassicals—based however on simplifying hypotheses similar to a wishful thinking, such as the “rationality” of the consumer, perfect markets, and homogenous and price-taker firms. On that account, Alfred Marshall and Léon Walras underscored that their models apply only in specific cases, and that public intervention is necessary to approach the conditions of perfect competition.

Walras, in particular, went a long way in this direction. In a little-known text (and clearly “forgotten” by the neoliberal doctrine), *Studies in Social Economics*, he proposed, within the framework of an articulated theory of public and private action, the abolition of taxes on work. And, nothing less, the complete nationalization of the land and of all public soils, combined with a strict control and/or nationalization of public utilities. Of course, his well-known general equilibrium analysis remains highly static and simplistic.

In this context, the discovery procedure emphasized by Hayek tends to overlook the presence of high market power and other imperfections in the reality of the oligopolistic markets of our time. This economic power, in particular of big firms — by allowing the “free unfolding” of unfair deals (and hence exploitation) over workers and consumers, and the negative externalities on the society — severely limit or bring to nothing the scope of the Hayek’s discovery procedure. It is as if, in the examples provided by Hayek (sporting events etc.), the underlying rules and their application were systematically biased in favour of the more powerful competitor. But for Hayek the actual oligopolistic markets work quite well, with one exception (and it is easy to guess which one): that of labour, where “rigid wages” due to the action of unions are considered the main cause of economic problems (including the crisis of 1929). And, of course, J.M.Keynes’ theory is one of the Hayek’s main targets.

Moreover, the discovery procedure is not enough to

make Hayek's theory of competition dynamic (or at least more realistic) because this process is implicit in neoclassical models (which are essentially static). In fact, to make the analysis of the markets dynamic (i.e. evolutionary) a real departure from the neoclassical/Austrian models is needed. This implies, in a heterodox economics' perspective, considering the endogenous dimension of markets' imperfections and contradictions—namely, how these aspects co-evolve within the related institutional, cultural and psychological context.

An important insight of this analysis³ is that an increasingly significant part of individual action is carried out not in a *vacuum* but in institutions of various kinds (including the markets). This has been accompanied by the transition from the early individual capitalism (however supported by public intervention) to the “concerted capitalism” or “mixed economy” of the current period. Moreover, even when the action appears purely individualistic — for example, in an isolated exchange between seller and buyer — there is the implicit presence of a collective element, constituted by the set of rules, institutions and policies that make such a transaction possible. In this context, corporate planning, analysed by institutional economists⁴, constitutes the reality of modern capitalist economies. In this system, the “free operation of market forces” is strongly conditioned by the interests of big business, which possesses a wide variety of instruments to influence economic policies⁵. Corporate planning is highly hierarchical, as the main decisions are made by the top management with little involvement of workers and citizens.

Thus, it is still public action, so abhorred by Hayek, that makes it possible for private firms to exist in a market economy. The problem is therefore to orient public action towards objectives of public interest through a process of democratic planning.

One central difference of democratic planning in respect to corporate and totalitarian systems resides in the capacity to self-correct – by a process of trial and error – its own shortcomings. By allowing a more complete expression of the experiences, motivations and conflicts of the involved subjects, such system improves the process of social valuation, and then the capacity of policy action to respond to the profound needs of society.

Conclusions

In this regard, one central objective of democratic planning is overcoming the dichotomy, identified by Veblen, between the objectives of profit and serviceability related to the production of goods. This can be attained by reducing the artificial scarcity and the “invidious distinctions” stemming from market power and ceremonial status, and by making a better and participatory use of the communi-

ty's knowledge. All this is related to the fulfilment of John Dewey's democratic principle: people affected by decisions must have a say in decision-making and in assessing the results.

In such a system, economic and social life can be organised through various combinations of public and private action.

On that account, it is also important to note that the market — as being an institution created and maintained by norms, institutions and policies — is not synonymous with private property as it can well imply, within a principle of subsidiarity, cooperative firms also within various forms of democratic socialism. Likewise, public action need not be synonymous with an authoritarian and “ceremonial” bureaucracy as it can be organised in creative and flexible forms.

In all these issues, the relevance of democratic planning lies in the process it engenders for improving social valuation⁶ in decision-making. Such improvement, by promoting a better expression of the motivations and conflicts of the various persons and groups involved in policy action, can lay the basis for the formulation of policies more respondent to the profound needs of society.

¹ As the title of work indicates, we wish to highlight how Hayek's theory of competition laid the foundations of the neoliberal turn of the 80s: namely, a system based on the (ideological) conviction that the private sector is inherently more efficient than the public sector. Accordingly, the role of the latter should be reduced as much as possible. In this paper we will point out how groundless is this belief. As a matter of fact, public action has always played a central role in creating and maintaining private markets. For this reason, public action was by no means reduced in the neoliberal era, as the only relevant change was that markets came even more under the influence of big corporations (see also later on the notion of “corporate planning”).

² We consider, in particular, without any claim of a complete analysis of the various aspects of his work, Hayek's article “Competition as a Discovery Procedure”, *The Quarterly Journal of Austrian Economics*, Vol. 5, N.3 (Fall 2002): 9–23. It is a translation from German of F.A. Hayek's “Der Wettbewerb als Entdeckungsverfahren,” a 1968 lecture sponsored by the Institut für Weltwirtschaft at the University of Kiel. Translated by Marcellus S.Snow.

³ Refer, in particular to, Commons, J.R. [1995 (1924)], *Legal Foundations of Capitalism*, New Brunswick (New Jersey, U.S.A.), Transaction Publishers. Originally pub-

lished by Macmillan in 1924; and Commons, J.R. [1990 (1934), *Institutional Economics: Its Place in Political Economy*, New Brunswick (New Jersey, USA), Transaction Publishers. Originally published by Macmillan in 1934.

⁴ In William Dugger's words, 'The corporation is privately efficient [in the pursuit of its goals], but it is not socially efficient because its low-cost, high-productivity performance benefit those who control it, generally at the expense of those who depend upon it but frequently also at the expense of the society at large.', in Dugger, W.M. (1988), "An Institutionalist Theory of Economic Planning", p.239, in *Evolutionary Economics*, vol.II, edited by Marc.R.Tool, New York, Sharpe.

⁵ The policies that can be influenced by big business in-

clude, but are by no means limited to: (i) privatisation of services realised to the advantages of the incumbent firms (for instance by leaving to them a substantial oligopolistic power at the expense of workers, consumers and society at large); (ii) very favourable fiscal regime for corporations, whereby most of them end up paying on balance very little, or no taxes at all; (iii) various direct and indirect measures of protectionism; (iv) public procurement policies in sectors like armaments, telecommunications, aerospace, and (especially in the present covid-19 situation) pharmaceuticals; (v) last but not least, a relaxation of environmental targets.

⁶ See also Tool, M.R. (1986) *Essays in Social Value Theory: A Neoinstitutionalist Contribution*, New York, Sharpe.

Don Webber discusses his book,

How to enhance your research: 100 practical tips for academics

(2021) **Edward Elgar**; ISBN 978 1 78897 808 8 (cased), ISBN 978 1 78897 809 5 (eBook)

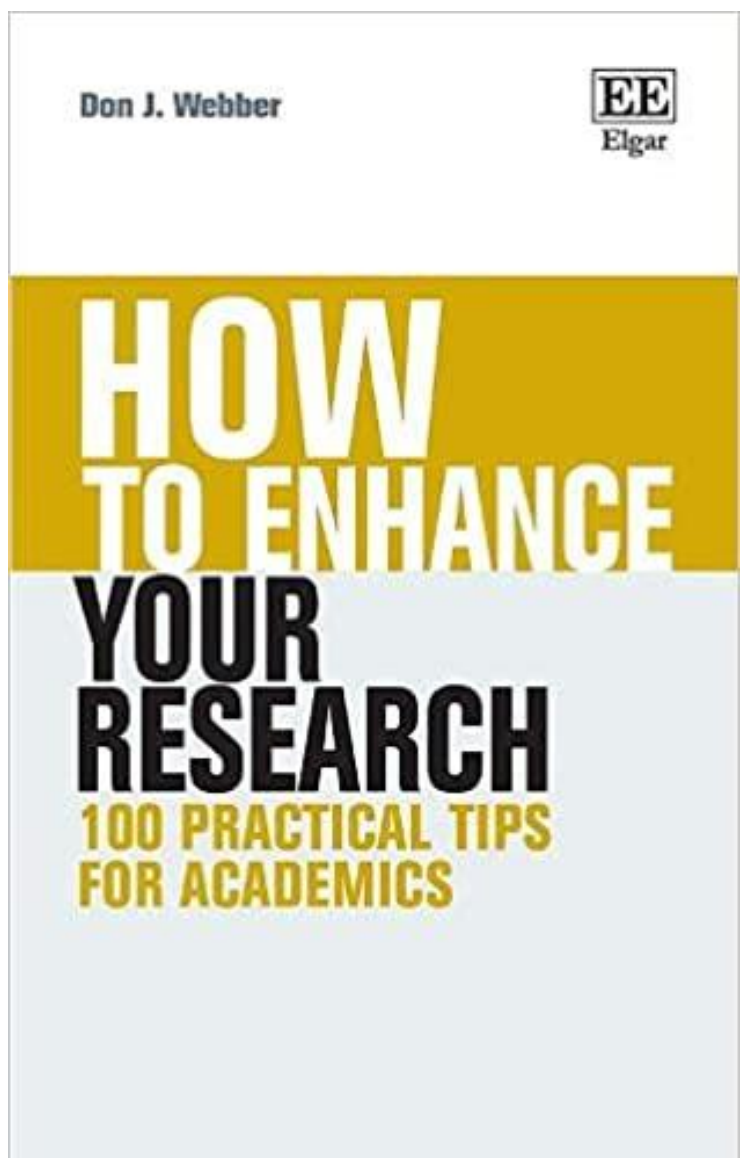
What led you to write this book?

This project started as an opportunity to reflect on our collective ability to make the academic world a better place. Over the years, I have had informal discussions with friends, colleagues and acquaintances across different universities and it appeared to me that some individuals perceive their institution to be demoralising and dispiriting while others see their institution as having a culture that is energising, supportive and enabling. The former group perceive their research activities as more of a chore while the latter group see their research as a source of pleasure and something that they actively look forward to undertaking. I wanted to understand what caused these differences in perceptions. Are they person-specific? Are perceptions common across individuals within an institution? For instance, an institution may be a place where academics bond by grumbling about things, and this grumbling feeds a scholastic atmosphere that enables research.

When I talked through the positive and negative perceptions with respective individuals, I began to realise that they all wanted something multidimensional; they wanted:

- a persistent high valuation of research
- to be recognised for researching something that had value to academia
- to work in a research culture where they felt they could achieve their potential
- to receive support from their research leaders, and
- the influence of negative colleagues to be suppressed.

Those friends, colleagues and acquaintances suggest-



ed many seemingly small initiatives that they saw could have huge beneficial effects on their own productivity, effectiveness and job satisfaction. This book is a collation of their uplifting ideas plus a generous sprinkling of my own. My hope is that this book moves forward the conversation about the academic research culture for the benefit of all.

Why are many researchers underperforming?

This is a question that I do not answer specifically in the text. However, I do cover a number of possible issues that result in the underperformance of academics. Primarily, I focus in on the importance of social norms. The behaviours of those around you will shape your behaviours towards others. Of course, lessons on how to interact with others commence and are learned in childhood, and then extend across our entire lives, but a researcher's early and updated experiences with their own research leaders will subsequently shape and revise their own interpersonal behaviours. A positive, nurturing and supportive experience with a research leader can be very enjoyable and encourage you to help others, not for thanks or recognition but simply as a way of passing on the beneficial ambiances that have already been granted to you. It appears to me that this is how a healthy and constructively critical research culture reproduces itself in a sustainable, rewarding and expanding manner. Negative experiences with a research leader or senior member of staff (such as belittling, passively aggressive, or gaslighting) will only encourage you to dismiss your colleagues' efforts, installing in you an incorrect and shameworthy impression of superiority, and make you reticent to help others.

The book contains a whole range of tips that can help generate a positive, nurturing, and supportive experience within the academic workplace. It is about having the confidence to ask colleagues for constructive advice, guidance and critical feedback, as often the ideas that we receive from those trusted colleagues can stimulate and advance our thinking in interesting and new ways. It is all about being open to provide and receive support and constructive criticism and feedback. Those who are underperforming are likely to be those who do not receive the support or recognition that they think they deserve, and a major part of this is due to the atmosphere within a department and whether you feel that you fit with your colleagues. A good fit in a supportive and constructively critical department is likely to accelerate your productivity, whereas working in an atmosphere where there are belittling, passive aggressive, and gaslighting behaviours is likely to reduce your productivity and your ability to reach your own research potential.

One possible area of future research is whether people have been promoted to research leadership positions based solely on their own excellent research output. Unfortunately, it is not always the case that someone who is excellent at their own research is also excellent at enabling their colleagues to also achieve their research potential; it's a Peter Principle applied to academia. If someone is promoted to a research management position, then at a minimum they must not reduce the performance of their colleagues and should instead be promoted because of the ability to enhance the performance of their colleagues. Similarly, some individuals may well be fantastic at supporting the research journey of their colleagues but not necessarily be promoted to that position because they may not be the one appearing to achieve greatness in their own research; that's a Paula Principle.

What are your most valuable tips for pluralist researchers?

This book is a collection of 100 tips that could create beneficial change both at a personal level and at a departmental/faculty/institutional level. Depending on your own circumstances, some tips will apply more to you than will others. At the very least I hope that this book starts a wider conversation about how we can more actively support each other across the social sciences to achieve our potential and produce greater amounts of higher quality research output. This includes being open to and tolerant towards the use of different ontologies, epistemologies, and axiologies, which unfortunately is not always the case within our discipline. I feel that these barriers to communication are limiting the progress of the discipline. If we can open up these lines of communication enough, then we can start helping each other to achieve more.

There are a number of stories in the book that hopefully senior colleagues can relate to. For instance, one day I was chatting with a junior colleague and realised that they were researching something very interesting and had already published that idea as a paper in a working paper series, but they simply were not ready to present that paper at a conference or submit it to a journal. Although I didn't fully understand the true force of their work, I knew that their research would be of interest to an acquaintance at another university, so I phoned them to look at the working paper and see if it was appropriate for their staff seminar series. I left it up to them about whether they would approach my colleague. The following day, my junior colleague rushed into my office with the widest grin exclaiming that prof X at university Y had on the off chance seen their working paper and that they were really impressed, and they had invited them to present their work in their staff seminar series. My junior colleague was incredibly excited

but did not know whether to accept the invitation. I persuaded them that the worst that could happen is that the audience would find holes in the research that could be subsequently addressed, and hence move the research forward. After some hesitation, they agreed to present in that staff seminar series and the preparation for that presentation accelerated their research. Identifying those types of opportunities is exactly what a more senior colleague should be doing to help their colleagues, junior or otherwise.

Many other tips address things that researchers can do to help themselves. For instance, being a member of an email distribution list that announces seminars on a wide range of topics can be very useful. When you make time to attend something slightly different to what you are used to then you can end up finding some new and different ideas that you can integrate into your own research. For instance, many economists would benefit from attending presentations by sociologists. One of the most inspiring seminars that I ever attended was presented by a biologist (specifically how plants depend on their neighbours and ecosystem).

There are other tips about how to lever greater academic benefit from contract research opportunities, how to lever greater impact from your research, how to collaborate more effectively, the benefits of broadening your methodological toolbox, and the ability to find inspiration when you least expect it, and many others. There should be something in there for everyone, including for those just starting out and those in senior management positions making decisions within and across departments.

Is the responsibility for increasing research output at the individual or institutional level?

A university must have an institutional environment that values the cross-fertilisation of ideas and skills from experienced to less-experienced staff and back again. There are some institutions where the researcher is left to their own devices and is expected to produce research almost in isolation. In other institutions, the culture is so competitive that it frowns on collaborative and mutually supportive behaviour, often sourcing justification from research assessment exercise rules that state that a journal article can only be submitted under one resident researcher's name. These competitive cultures may be effective for some narcissistic researchers (and yes, such researchers definitely exist!), but knowledge production progresses much faster when people discuss their research openly, constructively, and constructively critically, and when colleagues see mutual benefits from doing so.

The act of providing constructively critical feedback to colleagues is grounded in the principal objective to improve the quality of the work. The best scholars actively learn from constructive criticism: they see the positives and appreciate the feedback. The best research leaders, who combine generosity and compassion, already know that emotionally and intellectually supporting their colleagues takes a huge amount of time, energy, patience, and perseverance; they also know that this effort pays off. Research leaders must be socially benevolent and want to get the best out of their colleagues; as the best parents intuitively know, the support provided by research leaders to their colleagues must be selfless and reliable. A researcher should be given complete freedom to follow his or her own talent and intuition, and they should feel supported and not experience fear when they face a challenge or wish to proclaim an idea.

It is not only a research leader's responsibility to create these open, supportive, and tolerant conditions but also the responsibility of the researcher and each researcher's colleagues. This is the case not only for the achievement of the pinnacle of self-actualisation, but also for general fulfilment and opportunities for personal and academic growth and development: research leaders are necessary for this effect but not sufficient because colleagues build on, refine, and magnify the research leader's effect across the department.

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WEA Commentaries

(formerly The World Economics Association Newsletter)

is published in the UK

by the

World Economics Association.