

World Economics Association Newsletter

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

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Why Trump?

By Peter Radford

I have become so enmeshed in political activity here that I rarely have time to reflect on the strangeness of it all. Why Trump? Why now? But I was prompted to think a little harder about it when I re-read the following in Karl Polanyi's "The Great Transformation":

"Market society was born in England - yet it was on the Continent that its weaknesses engendered the most tragic complications. In order to comprehend German fascism, we must revert to Ricardian England."

Now I don't want to plunge into a detailed recapitulation of inter-war history - that is not my point. I want to focus our attention on the analogy Polanyi brings to mind, and especially how deeply ideas can scar a society when they are applied with religious ferocity without regard to their flaws.

Nor do I want to re-litigate the entire argument about neoclassical economics. Frankly I am tired of wasting my time. If the preponderance of economists want to disconnect from reality, then who am I to argue? Let them. And ignore them. Their ignorance of the real world is both willful and necessary for the alternative world in which they think to cohere. So be it.

But...

For those of us who value economics as an understanding of a critical part of social reality we must insist that those inhabiting that alternative world take full responsibility for the outcome of their ideas if, and when, those ideas are allowed to seep into actual policy making. They must be blamed. And we ought to demand an explanation as to why the imposition of fanciful ideas onto an unsuspecting world, with the core consequences now becoming apparent, is at all ethical.

You see, Polanyi was right. At least in so far as he projects the blame for extreme politics, in a major part, onto the shoulders of those who advocate policy based upon theories that stand not so much on solid foundations but in midair.

It is not possible now, nor has it ever been, to extract economics from its socio-political context. It is not possible to remove history. Nor is it possible to remove the panoply of institutional, cultural, geographic, intellectual, or technological frameworks within which economic activity takes place. Those things frame every single transaction. They channel them. They constrain them. And they create the pathway along which an economy



travels. If we ignore such things then the consequent study is a sterile amoral technical exercise of little practical value. Yet that limited small thing, centered around the mathematics of allocation within scarcity, has been presented to the world as the theoretical structure upon which we ought to rely if we wish to prosper. It has become the most im-

portant part of the meta-structure we know as neoliberalism, and it is neoliberalism and its hollowing out of the socio-economic environment in which we live that has produced the combustible political context within which Trump has emerged as a viable candidate.

I have often suggested here that a key characteristic of mainstream economics is its fundamental distaste for democracy. We read it in the way in which economics pours scorn on government - even democratic government - as an automatic and inevitable problem in the achievement of efficiency, whatever that is. The anti-social bias is palpable.

Economics with its relentless attention to individual liberties and the freedom to exchange personal property in various markets, has forgotten, or neglected, the other half of the liberty bequeathed us by modernity: that of being equal amongst our peers. It is this second half of freedom that manifests itself as democracy. And it is this second half that presses back against the excesses of the first. This must be, for to preserve the freedoms expressed within economics we must mitigate the tendency, inherent within it, to accentuate differences in the terrain of society. Too much inequality undermines the willingness of the least equal to accept the workings of the market upon which modern economics is built. At some point rationality requires limitation of that freedom. It is only by accepting both halves of liberty - of individuality and of equality - that we can protect them both. They must be balanced. Neither survives alone.

Yet most economists scoff at this thought. Indeed they have deliberately stricken from their domain any reference to equality, and they, instead, sneer at any effort to smooth the differences their allocative mechanism might amplify.

So, at best, modern economics is a half-truth. It can only ever be a partial defense of social or economic freedom. Its deliberate blindness to the other half makes it inapplicable as a complete social theory. Its contempt for democracy makes it irrelevant in modern socie-

ties. Perhaps most economists don't realize this, they are too caught up in the wonders of the mechanics of their dangerous half-truth.

But say it often enough, say it loudly enough, and, especially, say it with the authority of a scholarly background and the damage can be awful.

You might just make a Trump legitimate.

Ideas matter. We all acknowledge that. From where I sit economics has a lot to answer for. Polanyi was right, and that really matters.

Models and measurement in economics

By Merijn Knibbe

Models and measurement in economics. Do macro-economic modelers and macro-economic statisticians talk about the same variables?

[This post benefitted from comments by Josh Mason and Diane Coyle.]

1. Introduction

Variables like 'capital', 'the price level', 'unemployment' and 'consumption' are routinely mentioned in macro-economic models as well as measured by macro-statisticians. But are the economic modelers and the economic statisticians, while using the same words, also using the same definitions or even talking about comparable concepts? Not always. And differences are sometimes fundamental (Cristiano, 2011, especially paragraph 2.1). In a series of posts of which this is the introductory one I will argue that:

- * many persistent, non-trivial differences exist between the concepts and definitions of the variables as used in the models and the concepts and variables as defined and measured by the statisticians, especially between the modern 'DSGE' models (more about these below) and the macro-statistics, i.e. the statistics compiled within the framework of the 'broad' national accounts;
- * these differences matter for theoretical as well as practical purposes.

DSGE models are, in their basic form, non-monetary 'Robinson Crusoe' models which model the entire economy as a single person or, to be more precise, as one single homo economicus. More sophisticated versions exist but the concepts of the variables are pretty much based upon this basic form. The 'broad national accounts' are fundamentally monetary models which estimate different kinds of monetary flows (wages, profits, consumption, investments) between different sectors of the economy and which, contrary to the DSGE models, are based upon aggregation of individual micro transactions and which also enable the estimation of physical flows of products and hours and which increasingly also contain data on stocks of financial variables. In a subsequent post I will describe the models in more detail, here I will only stress that the differences are also reflected in the culture of economics. Models are often developed in universities by academics who earn a personal reputa-

tion based on this work and who are pressed to earn such a reputation - or to lose their job. The statistics are developed and produced in specialized institutions which often publish the results anonymously. There is limited interaction between these two worlds when it comes to either developing models or developing macro statistics. This occurs even to the extent that it might be necessary to clarify in this post, which might mainly be read by academic economists, that with 'statistics' I do not mean econometrics or Anova and Ancova tables but data on the price level, (un)employment and many other macro-economic variables which are routinely and in a remarkably consistent way estimated by statistical offices like Insee in France, the ONS in the UK, the Bureau of Labor Statistics (BLS) in the USA, the Ministry of Statistics and Programme Implementation in India, and, when it comes to monetary macro statistics, central banks (about this also Bos 2003 and Bos 2013).

At this point some of the readers might wonder why in economics non-trivial differences between model-variables and statistical variables exist at all.¹ Isn't a science supposed to be a consistent and coherent system of models and measurements instead of a hodgepodge of mutually inconsistent models and statistical variables?! Such a thought might idealize science a little but in macro-economics the difference is in my opinion so large that the 'why?!' question requires some attention. In the rest of this introductory post I will therefore highlight an episode in the history of (un)employment statistics and the role of unemployment in economic models to show that existing differences are neither coincidental nor haphazard but related to the persistent existence of different economic schools or paradigms. This also means that changing the concept of either the model variables or the estimated variables requires a 'paradigm change'. This is a task which, according to the philosophy of science, is not easily accomplished. The Keynes-Lucas discrepancy about involuntary unemployment mentioned in the next paragraph does not falsify that idea. But the episode also highlights that key decisions about the actual definition, operationalization and measurement of unemployment were not instigated by academic economists but by the, at that time, most powerful legislature of the world, the US congress. Never mind the

differences between the paradigms, the politicians could not wait for economists to end their disputes and wanted to know about the ins and outs of measurement (which, as it happened, were to a considerable extent developed by economists from yet another inclination, the 'institutionalists')! Gathering macro-economic statistics is costly and many of the variables measured (unemployment!) are politically sensitive, and it is not a coincidence that the activity has to be funded by the government. This makes the differences between the economists even more remarkable.

2. The concept of unemployment. Models, measurement and politics.

According to Bos (2006, 2013) a (not necessarily chronological) sequence of:

- thinking about concepts;
- translating concepts into definitions;
- operationalization of the definitions; and
- measurement of the operationalized variables.

In this many stakeholders are involved as is characteristic for the historical development of measurements of (systems of) economic variables. If Bos is right while, at the same time, a difference between the meaning of variables in theoretical models and in economic statistics exists, some kind of disconnect between theoretical developments and the development of economic statistics must be traceable. This is the case. The development and definition of the concept of 'involuntary unemployment' might serve as a case in point. In 1936 John Maynard Keynes defined, in chapter II of *The general theory of employment, interest and money* his new concept of 'involuntary unemployment':

"Men are involuntarily unemployed if, in the event of a small rise in the price of wage-goods relatively to the money-wage, both the aggregate supply of labour willing to work for the current money-wage and the aggregate demand for it at that wage would be greater than the existing volume of employment." (Keynes 1936)

According to Keynes, this situation could exist but it was inconsistent with the labour market theory of the 'classical' economists of those days.²

Keynes had good reasons to introduce and define this concept as in his time the classical ideas did not seem to work. Classical economists stated that in a market economy lower nominal wages would lead to more demand for labour and, hence, lower unemployment. This meant that (high) unemployment was either voluntary (when people did not accept lower wages) or 'institutional', i.e. caused by institutions and frictions which prevented a decline of wages. But in the UK of the twenties things were different. 'Average earnings' declined from a level of 1.03 in 1920 to 0.71 in 1923 and declined further from 0.73 in 1928 to 0.68 in 1932 (Dimsdale, Hills and Thomas

2010; Bank of England Internet 1). Despite these declines, *average* UK unemployment in the twenties was about as high as *peak* unemployment before 1914 while, after 1929, unemployment rose to totally unprecedented levels. High unemployment in the twenties could with a lot of tweaking and twisting maybe be explained by the argument that wages had not fallen enough. But the strong rise of unemployment after 1929 was, considering the declines which already had taken place, totally anomalous. Economists had something to explain. Keynes tried to do this – which led him outside of the classical framework. Or in fact: it led him to erect a new, larger framework where a 'classical' economy was only one of many possibilities and involuntary unemployment, an impossibility in the special case of the classical economic world, could exist.

For several decades, Keynes' ideas took hold. In 1976 however the 'New Classical' economist Robert Lucas, widely regarded as the most influential macro-economist of the 1970-2008 period and one of the intellectual fathers of the DSGE models, explicitly responded to the Keynes challenge (Lucas 1976). He starts citing a 1933 Hayek quote which implies that in those days classical 'general equilibrium' economics indeed had something to explain (and was not able to do this). The quote is followed by an empirical description of business cycles which is based upon the ideas and measurements developed by a proud student of Thorstein Veblen, the economist Wesley Mitchell (and, subsequently, by Geoffrey Moore and Julius Shiskin (see Frumkin, 1998)): what is there to explain? So far, so good. But remarkably, Lucas leaves out all labour market variables which are part of this elaborate system of interrelated lagging, coincident and leading business cycle indicators. The labour market is simply not included in Lucas's description of the business cycle and unemployment, involuntary or not, hence does not require explanation. This left Lucas of course with the problem of how to explain the clear and cyclical changes in *measured* unemployment. At this time, and in contrast to the days of Keynes, dependable and detailed statistics on (un)employment, showing the clearest of cyclical patterns, were published and widely discussed on a regular basis. Lucas did this by negating (not the same thing as disproving) the idea of 'involuntary unemployment', totally misrepresenting the contents of chapter 2 of the *General Theory* and equating 'unemployment' with 'leisure' not only as a matter of speech but also by explicitly using data on vacation and weekend behaviour of employed people to describe the behaviour of the unemployed. He goes on by stating that 'measured unemployment' is a clear choice by a 'worker/producer' (compare a cobbler in an eighteenth century village) which in fact means that he disregards

the institution of wage labour (note the word 'close' in the next quote):

"If 'leisure' is highly substitutable over time, he will work longer on high price days and close early on low price days... there is little evidence that much time is spent in job search ... that measured unemployment measures any activity at all... . Indeed, I suspect that the unwillingness to speak of workers in recession as enjoying 'leisure' is more a testimony to the force of Keynes' insistence that unemployment is 'involuntary' than a response to observed phenomena".³

Keynes did of course *not* state that all unemployment is, by his definition, 'involuntary'. He stated that in certain situations unintended consequences at the macro level could thwart the micro efforts of the unemployed to get a job, which could give rise to involuntary unemployment. But Lucas's ideas carried the day when it came to modeling unemployment in the DSGE models. As Lawrence Christiano stated 25 years later, in 2011 when commenting on a DSGE model which tried to estimate unemployment:

"First, I am skeptical that the people designated as unemployed in the model satisfy the official United States definition of unemployment. Second, the model implies that the unemployed are happier than the employed" (Christiano 2011).

Christiano shows this in a detailed way: what's called unemployment in such models is the same as that-measured by economic statisticians and is at odds with our knowledge about the mental and material suffering of the unemployed. The implicit definition of 'unemployment' in the models happened despite a mayor mistake by Lucas: the suggestion that '*measured unemployment*' does not measure any activity at all. The contrary is true. Activity is the very basis of the unemployment statistics. Which brings us from 'high' theory to the mundane world of statistical definitions, operationalization and measurement. According to Eurostat, which follows the International Labour Organization (ILO) guidelines:

*"Unemployed persons are persons aged 15-74 who were without work during the reference week, but who are currently available for work and were either **actively seeking work in the past four weeks** or had already found a job to start within the next three months"* (emphasis added, Eurostat Internet 1, see also Christiano 2011).

And this is not a new definition. When Lucas wrote his article, a comparable definition was already in use for quite some time, at least in the USA, with the explicit approval of the US congress. In 1962, the US government issued a report titled '*Measuring employment and unemployment*'. Congressional hearings about this re-

port were held in 1963 (n.a. 1963). The introductory text of the hearings by Robert A. Gordon (the economist, not the sociologist) is remarkable:

"The actual timing of the Committee's appointment was, almost certainly, influenced by the publication of an article by James Daniel which appeared in the September 1961 issue of the Reader's Digest. The article was called 'Let's Look at Those 'Alarming' Unemployment Figures.' ... an egregious example of irresponsible journalism. In effect, it charged that the official data on unemployment were being deliberately manipulated in order to justify larger Government spending and more extensive Government controls. While this article probably precipitated the decision to set up a committee of outside experts at that particular time, a much more basic set of forces had been at work for a number of years that would almost certainly have led the Federal Government eventually to seek a new appraisal of our labor force statistics".

The unemployment statistics clearly were so important to the Congress that a hearing was held not about unemployment but about a question as arcane (and fundamental!) as *the way (un)employment was measured!*

The testimonies give witness to the broadly perceived necessity to base macro unemployment data on individual situations which individual people *actively* are trying to change, to show the (at the micro level) involuntary nature of unemployment. This is what happened: a 1967 Bureau of Labor Statistics Report by Robert Stein shows that these remarks were taken to heart and incorporated in the survey questions which are used to measure 'unemployment' (Stein, 1967). Later the International Labour Organization (ILO) adopted comparable recommendations about the measurement of (un)employment, which via the ILO were disseminated to statistical offices all over the world (this process still goes on). This makes 'measured unemployment' as an 'observed phenomenon' at least at the micro level 'active', 'involuntary' as well as a disequilibrium situation. Lucas was wrong about all of this. Despite this, 'new classical' economists chose to negate the work of economic statisticians, the work on business cycles and in fact even the US Congress (Goldberg and Moyo 1985 shows that especially during times of crises political interest in macro labor statistics is invariably high, the hearings were part of a pattern). The new (un)employment statistics also yielded information on 'broad unemployment' (people without employment not actively seeking, involuntary part time employment etc.), which showed that the level of unused capacity was even larger than earlier perceived. Economists had even more to explain and they had more data than ever to do this.⁴ But new classical economists like Lucas chose to shy away from this task. About this one can also con-

sult De Vroey 2004, a book titled *Involuntary Unemployment* which investigates this concept at great length but tellingly does not spend a title or iota on the concept and definition of *measured* unemployment.... An unfortunate consequence of this closing of the classical mind has been that, at this moment, no agreement or discussion exists about a measurable definition of 'involuntary unemployment' (De Vroey 2004 dismisses the whole concept), which can be considered to be a mayor failure of institutional and Keynesian economists as well as of the economic statisticians.

The Stein article also contains some, from a methodological perspective, interesting discussions about the operationalization of the concept of unemployment, such as whether we should include 14 to 16 year olds or about the precise phrasing of questions. Without going into details: in both cases such seemingly arcane questions do matter for the outcomes of the measurement; 'measured unemployment' is not just dependent on the definition of the variable, but also on the way it is operationalized and on the method of measurement (sample size!). A final point: many economists were involved in the development of economic statistics in general and also in the development of (un)employment statistics. The preponderance of 'institutional economists' among the 'fathers' (and a remarkable amount of mothers) of economic statistics, many of them proud and self-conscious students or admirers of Veblen, the most radical critic of classical economics of his generation, is remarkable.⁵ The prime example is Wesley Mitchell but one can also mention Morris Copeland, the father of the flow of funds, and for labour statistics Isador Lublin, student and friend of Veblen and long-time head of the BLS (Ayres 1963; much more extensive Rutherford 2011 and Goldberg and Moye 1985). Academic economists (Keynesian and classical alike) seem to have left the actual measurement of macro-economic data to a remarkable extent to the 'second generation' of 'institutional economists',⁶ and nowadays to the economic statisticians.

3. The work ahead

I hope that, at this point, the reader will be aware of the existence of a serious disconnect between the conceptualization, definition, operationalization and measurement of macro-variables on one hand and with many economic models on the other. In the next post I hope to say a little more about 'material and methods' as well as to provide a more in depth comparison of the two main models mentioned, after which I will proceed by trying to make a precise comparison between the concepts of the classical and new classical 'DSGE' variables and the variables which are actually measured.

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Notes

¹ This situation seems to be improving. Internships of students of macro-economics at statistical institutes are however still not an obligatory or even advised part of their education.

² Looking at (un)employment, domestic demand inflation and wage developments in Spain and Ireland and the estimates of the 'NAWRU' rate of unemployment (Non Accelerating Wage Rate of Unemployment, which in these countries might after 2008 better be called the DWRU) it turns out that the Keynes definitions describe the situation in these two countries pretty well. See European Commission 2014, graph II 1.1.

³ The derogatory tone of the Lucas remarks seems to fit in a tradition. The remarks of Martin Gainsborough of the National Industrial Conference Board in the transcripts of the 1963 USA Congress hearings on

'Measuring employment and unemployment' (n.a. 1963) contain comparable though less extreme statements.

⁴ This discussion is too USA centered to my liking. However the availability of material and the importance of USA economists in the 'New classical' revolution in macro-economics as well as the fact that in the case of (un)employment statistics USA economic statisticians seem to have led the way as well as ease of exposure led me to leave it this way.

⁵ And of neoclassical economics – Veblen invented the very phrase!

⁶ Keynes himself was deeply immersed in the conceptualizing of the national accounts and had a kind of 'Veblen' role in the UK.

Economic Thought: History, Philosophy, and Methodology

By Sheila Dow, John King, John Latsis and Annalisa Rosselli (Editors)

Economic Thought, the online-based journal of the World Economics Association, is now in its fifth year of publication. It is a free open-access, open peer-review online journal, indexed by DOAJ, EconLit, RePEc and PhilPapers (links to EconLit and PhilPapers to go live shortly), available at <http://et.worldeconomicsassociation.org/>. We welcome paper submissions from scholars working in the history of economic thought, economic history, methodology of economics and philosophy of economics.

In line with the objectives of the World Economics Association, the journal seeks 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 seeks to promote research that draws on a broad range of cultural and intellectual traditions. We welcome articles addressing any aspects of these fields with an emphasis on original and path-breaking research.

We publish two issues each year – in March and September. Submitted papers that meet acceptable standards of professional quality are posted on the journal's Open Peer Discussion Forum in order to solicit comments and discussion. Some papers are then selected for publication in the journal. Where there is a comment on any of these papers, which is an extended commentary and of sufficient quality, the editors may publish it alongside the relevant paper.

We are very pleased to announce the publication of Issue 5.1 (March 2016), with contents as follows:

M. Shahid Alam, 'Commodities in Economics: Loving or Hating Complexity'

A review of economic thought since the sixteenth century reveals two streams of economic discourse, dirigisme and laissez-faire. Starting with the mercantilists, dirigiste approaches to economics embrace the real-world complexity of commodities that often differ greatly in attributes that are growth- and rent- augmenting. Most importantly, this means that free trade is likely to be polarising: it concentrates growth- and rent-augmenting commodities in countries that already enjoy a head start in these commodities. Advanced countries, therefore, support laissez-faire, while lagging countries tend to support dirigisme. In order to rationalise their laissez-faire stance, advanced countries began developing a new economic discourse that strips commodities of their complexity. The foundations for this ideological reconstruction of economics were first laid by Adam Smith; this process eventually reached its climax with the neoclassical economists who stripped commodities down to one attribute: their capital intensity. In opposition to this laissez-faire economics, other writers, supportive of the interests of lagging countries, brought complexity back into their economic discourse; they argued that lagging countries had a fighting chance of catching up to advanced economies only by indigenising a growing array of growth- and rent-augmenting commodities.

David Ellerman, 'The Labour Theory of Property and Marginal Productivity Theory'

After Marx, dissenting economics almost always used 'the labour theory' as a theory of value. This paper develops a modern treatment of the alternative labour theory of property that is essentially the property theoretic application of the juridical principle of responsibility: im-

pute legal responsibility in accordance with who was in fact responsible. To understand descriptively how assets and liabilities are appropriated in normal production, a 'fundamental myth' needs to be cleared away, and then the market mechanism of appropriation can be understood. On the normative side, neoclassical theory represents marginal productivity theory as showing that (a metaphorical version of) the imputation principle is satisfied ('people get what they produce') in competitive enterprises. Since that shows the moral commitment of neoclassical economics to the imputation principle, the labour theory of property is presented here as the actual non-metaphorical application of the imputation principle to property appropriation. The property-theoretic analysis at the firm level shows how the neoclassical (and much heterodox) analysis in terms of 'distributive shares' wholly misframed the basic questions. Finally, the paper shows how the imputation principle (modernised labour theory of property) is systematically violated in the present wage labour system of renting persons. The paper can be seen as taking up the recent challenge posed by Donald Katzner for a dialogue between neoclassical and heterodox microeconomics.

Jamie Morgan, 'Power, Property, the Law, and the Corporation – a Commentary on David Ellerman's paper:

"The Labour Theory of Property and Marginal Productivity Theory"

Asad Zaman, 'The Methodology of Polanyi's Great Transformation'

Polanyi's book, *The Great Transformation*, provides an analysis of the emergence and significance of capitalist economic structures which differs radically from those currently universally taught in economic textbooks. This analysis is based on a methodological approach which is also radically different from existing methodologies for economics, and more generally social science. This methodology is used by Polanyi without explicit articulation. Our goal in this article is to articulate the methodology used in this book to bring out the several dimensions on which it differs from current approaches to social science. Among the key differences Polanyi provides substantial scope for human agency and capability to change the course of history. He also shows that the social, political and economic spheres of human existence are deeply interlinked and cannot be analysed in isolation, as current approaches assume.

Anne Mayhew, 'A Commentary on Asad Zaman's paper: "The Methodology of Polanyi's Great Transformation"'

WEA online conference: Capital Accumulation, Production and Employment

By Gerson Lima, Jack Reardon and Maria Alejandra Madi

1. Setting the scene

The proliferation of financial assets, with economic growth limited and sporadic, has given way in the new millennium to widespread unemployment, income gaps, and weaker welfare programs. The same policies that have obliterated social services and kept labor cheap have favored global enterprises and financial deepening. Besides, the onset of the new millennium represents a new age of democracy where democracy allows for election to office but not to power (Madi, 2015).

Taking into account evidence from the USA, Fullbrook warns "American democracy has become a sham. It still maintains the trappings of democracy, but in reality it is a system of government controlled by the richest 1% of its citizens" (Fullbrook, 2011). Stiglitz elaborates the same; in his opinion, much of current inequality is due to the manipulation of rules in the financial industry: "The government lent money to financial institutions at close to 0 percent interest and provided generous bailouts on favorable terms when all else failed" (Stiglitz, 2011).

Indeed, given that central banks' shareholders are in the top 1%, the global economy, or at least the world's

number one economy, has been commanded by their specific interests. Page, Bartels and Seawright (2013) inform that the top 1 percent or so of US wealth-holders:

"... are extremely active politically and much more conservative than the American public as a whole with respect to important policies concerning taxation, economic regulation, and especially social welfare programs."

Moreover, the top one-tenth of 1 percent of wealthholders may tend to hold still more conservative views. Their conclusion is that these contrasting views about the economic policy may explain why some public policies in the United States seem to contradict the expectations of the majority of US citizens. And, considering that policy makers may give priority to their sponsors instead of to the people, the resultant economic policy will significantly violate democratic ideals of political equality.

Considering the specific interests that command policymaking, Michael Hudson (2015) states:

"The financial sector has the same objective as military conquest: to gain control of land and basic infrastructure, and collect tribute. To update von Clausewitz, finance has become war by other means."

Actually, public debt crises suggest the possibility that the objective of main creditors is to raise rent by forcing governments to borrow, and forcing them to pay by relinquishing public property or people's income. In Hudson's words, "debt-strapped nations permit bankers and bondholders to dictate their laws and control their planning and politics". Indeed, the power of wealthholders to drive the economy and to impose deleterious effects on the working conditions must be seriously considered.

2. What about investment?

Currently, private investment remains lower than before the 2007/8 crisis. As Ruccio (2015) points out, since the global crisis, the American recovery has been mainly related to corporate profits and incomes for the 1 percent. Indeed, both consumer spending and business investment have slowed down. In particular, as Ruccio explained, consumer spending has been influenced by the stagnation of most people's incomes. And in spite of the expansion of profits, they have not been invested. As a matter of fact, he says:

"while profits (especially from domestic sources) continue to grow, corporations are using those profits not for investment, but for other uses, including stock buybacks, mergers and acquisitions, and CEO salaries."

Indeed, the impacts of globalization need to be reconceptualised in the contours of a new accumulation dynamics where the relationship among nation states and capital flows has created a new competitive framework. For instance, current global competition in investment is driven by technology innovations. Germany has recently launched the project Industrie 4.0 that is considered "of significant importance to the continued competitiveness of German industry" (Germany Trade & Invest, 2015). In October 2015, The USA White House published President Obama's program, A Strategy for American Innovation, which states:

"But the United States cannot afford to be complacent. Our economic competitors are dramatically increasing their research and development (R&D) investments."

According to this program, the United States needs to excel in science, technology, engineering, and mathematics (STEM) fields. In this attempt, new public and private initiatives and policies are needed to ensure that not only more Americans, but also immigrants could participate in and benefit from the innovation economy.

In spite of the national technological and productive attempts to enhance inclusive growth, it is clear that the rules of economic globalization are designed to benefit the rich. As Stiglitz (2011) highlighted, these rules encourage "competition among countries for business". This competition drives down taxes on corporations and

weakens environmental protections. In addition to deep changes in working conditions, the competition among nations undermines fundamental core labor rights, including the right to collective bargaining.

3. Challenges to workers

In contemporary capitalist societies the global financial architecture has favored the expansion of financial assets, capital mobility and short term investment decisions – increasingly subordinated to rules of portfolio risk management (Madi, 2013). In this scenario, changes in production have been based on competitiveness and corporate governance criteria. Therefore, the new trends in capital accumulation and production shape a scenario where job instability and fragile conditions of social protection increases. As a result, workers need to redefine their skills, become informal entrepreneurs, or migrate. Indeed, it is urgent to face the increasing challenges to support an ethically defensible approach to working conditions.

According to Stiglitz (2011), many factors must be considered while analyzing current challenges to workers. First, labor-saving technologies have reduced the demand for many middle-class, blue-collar jobs. Second, globalization has created a global marketplace, confronting expensive unskilled workers with cheap unskilled workers overseas and favoring outsourcing practices. Third, social changes have also played a role in the labor market changes, such as the decline of unions. Four, political decisions are influenced by the top 1% who favor policies increasing inequality.

Piketty (2014) has also acknowledged the relevance of wealth and income inequality. His 15-year program of empirical research, conducted in conjunction with other scholars, analyzed the evolution of income and wealth (which he calls capital) over the past three centuries in leading high-income countries. Among the lessons, the outcomes of the research highlighted:

- There is no general tendency towards greater economic equality.
- The relatively high degree of equality seen after the Second World War was partly a result of deliberate policy, especially progressive taxation, but even more a result of the destruction of inherited wealth, particularly within Europe, between 1914 and 1945.
- In Europe, a "patrimonial capitalism" – the world dominated by inherited wealth – of the late 19th century is being slowly re-created.
- Inequality within generations remains vastly greater than between them.

USA: Perhaps the most extraordinary statistic is that: *"the richest 1 percent appropriated 60 percent of the increase in US national income between 1977 and 2007."*

Indeed, one of the most striking conclusions is the rise of the “supermanager” in the USA.

Unfortunately, without changes in capital accumulation and production, automation and technological unemployment will also increase inequality. It is worth recalling Stephen Hawking’s words:

“If machines produce everything we need, the outcome will depend on how things are distributed”. Indeed, given that the machine-produced wealth may be evenly shared, or concentrated in the machine-owners small group, the technological trend seems to drive an “ever-increasing inequality.” (Ruccio, 2015a)

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In truth, all these questions reflect issues of current power, politics and economics in a social context where democratic institutions are being threatened. Taking into account this reality, Peter Radford (2015) highlights that:

“Unfortunately America has, for four decades or so, bent over backwards to privilege capitalism over democracy. The result is the ongoing economic crisis that we continue to live through.”

4. The Wea Conference

The 2016 WEA conference Capital Accumulation, Production and Employment:

***Can We Bend the Arc of Global Capital Toward
Justice?*** ([http://
capital2016.weaconferences.net/](http://capital2016.weaconferences.net/))
15th May – 15th July 2016

will focus on various aspects of global accumulation, production and employment from a broad perspective, examining their interlinkages with other economic, social, and political processes. Concerns with social inclusion extend well beyond purely economic accounts of justice and fairness. The degree of economic inequality also affects social cohesion and political stability, and it can also have negative implications for economic growth and democratic institutions. Considering the current social and economic challenges, Peter Radford has suggested the need to constrain capital and make it work for all people. In his own words: ‘We can bend the arc of capitalism to our will if we wish’.

In truth, this conference calls for a deep examination of current power, politics and economics in a social context where democratic institutions are being threatened. This attempt also involves critical thinking about theories of justice in the light of applied challenges: To what kind of justice should we bend the arc of global capital? What are justice conditions and criteria, given the concern about capital accumulation, employment, and

production?

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A comment on Stilwell, *Heterodox Economics or Political Economy?*

Frank Stilwell's note 'Heterodox economics or political economy?' raises a number of interesting questions for heterodox economists. Stilwell contends that "labels matter" in order "to challenge orthodoxy both in theory and practice" and he argues that the term "political economy" is preferable on a number of counts because: "heterodoxy and pluralism are not synonymous" and pluralism is important "in challenging the orthodoxy"; political economy signals "the challenge is a healthy antidote to the spurious claims of value-free science"; political economy has a "long and respectable lineage" whereas heterodox economics "seems to accept marginal disciplinary status" as the norm; political economy has the "potential to provide a richer learning experience"; and political economy has "substantially greater potential for public recognition". We are of the view that this argument is flawed for ontological and methodological reasons which we outline in this short comment.

Stilwell's discussion of pluralism, upon which a large part of his argument rests, is one of implicit containment. Does heterodox economics contain pluralism or does pluralism contain heterodox economics? This binary poses also implications for defining the scope of 'political economy'. Stilwell's discussion is grounded in the notion that heterodox economics has a pluralist character, yet pluralism is not necessarily heterodox economics. While we, as heterodox economists, recognize that pluralism has a broader scope than heterodox economics, the scope of and methods associated with political economy depend upon the objects of analysis.

Stilwell observes, correctly, that heterodox economics is often defined in terms of departures from neoclassical economics. Yet, Stilwell does not follow through to draw the implication, as we do, that this manner of casting the heterodoxy essentially places neoclassical economics in a position of primacy, that is, as the benchmark from which all else is compared. By comparing particular features of heterodox economics against those of neoclassical economics a common misconception is propagated which is that the methods underlying heterodox and neoclassical economics are similar. Stilwell notes how neoclassical economists view their recent innovations, such as the happiness concept, game theory, behavioural economics, and so on, as 'heterodox'. Nothing could be further from the truth. The failure to recognize that methodological misconception renders the efforts of heterodox economists, such as the post-Keynesians, vulnerable to being 'absorbed' into the methodological realm of mainstream economics. Thus, we arrive at the importance of (political) economic method for discerning the distinctiveness of heterodoxy from the ortho-

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doxy, something to which Stilwell alludes but does not elaborate.

Heterodox economists employ open systems of thought in order to exploit the advantages of class-based, sector-based, or industry-based analyses. As such, we are able to weave together strands **within the traditions of political economy** to arrive at a consensus about



Lynne Chester

what drives the phenomena associated with market economies. Heterodox economics is able to accommodate, where appropriate, aspects of closed systems grounded in analyses of individuals. However, the heterodox treatments of time, uncertainty, equilibrium, money, expectations, etc. are radically different from orthodox economics (Dow 1996). Time, for instance, is cast as mechanical and/or logical for mainstream economics, whereas it is historical for heterodoxy. Heterodox economics is, thus for example, able to more fully capture the dynamics associated with cumulative causation as an essential process for understanding cyclical fluctuations. Moreover, the chains of reasoning are not confined to mathematical deductivism as with neoclassical economics. The chains of reasoning underlying Keynes' construction of aggregate and effective demands are prevalent examples of the structure of analysis associated with an open system.

With respect to the relationship between heterodox economics and pluralism, something similar underlies Stilwell's position. If heterodox economics has a pluralist character, yet pluralism is not heterodox economics, then – according to Stilwell's argument – pluralism envelops heterodox economics as a 'special case'. What is it that makes heterodox economics 'special'? Pluralism and heterodox economics employ open systems of analysis. Pluralism emphasizes the interdisciplinary aspects of economic, institutional, political and social phenomena. While heterodox economics also recognizes these aspects, there is at least an implicit, if not explicit, refer-

ence to an underlying vision of how markets operate, that is, to a price mechanism and its relationship to value. Orthodox economics views price and value as synonymous. In contrast, pluralism, which, again, seeks to integrate elements from a variety of disciplines, essentially de-links the need to hold an ontological view of social reality - a vision of a market mechanism, that is, a theory of value. As such, the range of social phenomena that can be examined under pluralism is much wider than with heterodox economics. Further, value becomes associated with ethics, not markets.

Should, as Stilwell infers, pluralism be the realm of political economy (which raises a number of inferences)? First, to do so risks reverting 'political economy' to a state that existed prior to Adam Smith. Smith's key contribution was to locate the market mechanism at the heart of understanding how capitalism functions, and the phenomena that emerge from it. Moreover, the market mechanism came to be represented by a theory of value as the regulator of market prices. This is a tradition which heterodoxy has upheld in terms of method. Second, heterodoxy is not a political strategy per se, but a vast collection of combinations of the strands of political economic traditions that involve open systems. 'Political economy as pluralism' jettisons the need to understand the market mechanism for analysing economic phenomena and for designing – and justifying – economic policies. While heterodox economics and pluralism are not synonymous, they are also not distinct. Another key difference between heterodox economics and pluralism, besides 'value', is scope.

Should political economy maintain a concept of value as a basis for understanding the determination of prices, i.e., how markets work, or should political economy cast value within the realm of ethics? Here, Stilwell seems to proffer an answer. According to his very broad view, political economy involves an analysis of how an economy functions, that is, how it produces, distributes and consumes goods and services. The implication is that a political economist must establish for herself the opera-

tion of markets as expressed through the determination of price. Heterodox economists offer a range of options about the relationship between value and price. Thus, heterodoxy is something more than simply a political strategy to provoke a shift of economic thought away from neoclassical economics, which is what Stilwell is seeking. Heterodoxy provides space for the creation of alternative views which attempt to arrive at a consensus of how a capitalist market economy functions. Far from blunting a challenge to the orthodoxy, it seeks to sharpen it.

While it is contestable that that the challenge to the orthodoxy needs to become more explicitly political as Stilwell contends, it should not – in our view – if this means relinquishing an analysis of the engines of market economy – markets, themselves – which means relinquishing methodology (which in turn reflects an ontological view of social reality). Without an understanding about how a society organizes its production, distribution and consumption of goods and services via markets, a serious intellectual challenge to the orthodoxy is placed beyond reach.

* Readers are encouraged to see Chester and Schroeder (2015) for a discussion of the nomenclature of political economy, and the issues arising from the conflation of heterodox economics and international political economy.

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