

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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Newsletter Change of Name

From Issue 7 No.1 the newsletter will be renamed **WEA Commentaries**.

This more accurately reflects the nature of the publication.

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

Uncovering where the econometric skeletons are buried

By [Lars Syll](#)

A rigorous application of econometric methods in economics presupposes that the phenomena of our real world economies are ruled by stable causal relations between variables. Parameter-values estimated in specific spatio-temporal contexts are *presupposed* to be exportable to totally different contexts. To warrant this assumption one, however, has to convincingly establish that the targeted acting causes are stable and invariant so that they maintain their parametric status after the bridging. The endemic lack of predictive success of the econometric project indicates that this hope of finding fixed parameters is a hope for which there really is no other ground than hope itself.

Invariance assumptions need to be made in order to draw causal conclusions from non-experimental data: parameters are invariant to interventions, and so are errors or their distributions. Exogeneity is another concern. In a real example, as opposed to a hypothetical, real questions would have to be asked about these assumptions. Why are the equations 'structural,' in the sense that the required invariance assumptions hold true? Applied papers seldom address such assumptions, or the narrower statistical assumptions: for instance, why are errors IID?

The tension here is worth considering. We want to use regression to draw causal inferences from non-experimental data. To do that, we need to know that certain parameters and certain distributions would remain invariant if we were to intervene. Invariance can seldom be demonstrated experimentally. If it could, we probably wouldn't be discussing invariance assumptions. What then is the source of the knowledge?

'Economic theory' seems like a natural answer, but an incomplete one. Theory has to be anchored in reality. Sooner or later, invariance needs empirical demonstration, which is easier said than done.

David Freedman: *Statistical Models – Theory and Practice* (CUP 2009:187)

Since econometrics aspires to explain things in terms of causes and effects it needs loads of assumptions. Invariance is not the only limiting assumption that has to be made. Equally important are the 'atomistic' assumptions of additivity and linearity.

Limiting model assumptions in economic science always have to be closely examined since if we are going to be able to show that the mechanisms or causes that we isolate and handle in our models are stable in the sense that they do not change when we 'export' them to our target systems, we have to be able to show that they do not only hold under *ceteris paribus* conditions. If not, they are of limited value to our explanations and predictions of real economic systems.

Unfortunately, real world social systems are usually not governed by stable causal mechanisms or capacities. The kinds of 'laws' and relations that econometrics has established, are laws and relations about entities in models that presuppose causal mechanisms being invariant, atomistic and additive. But - when causal mechanisms operate in the real world they mostly do it in ever-changing and unstable ways. If economic regularities obtain they do so as a rule only because we engineered them for that purpose. Outside man-made 'nomological machines' they are rare, or even non-existent.

Another prominent trouble with econometrics is the way the so called error term is interpreted. Mostly it is seen to represent the effect of the variables that were omitted from the model. The error term is somehow thought to be a 'cover-all' term representing omitted content in the model and necessary to include to 'save' the assumed deterministic relation between the other random variables included in the model. Error terms are usually assumed to be orthogonal (uncorrelated) to the explanatory variables. But since they are unobservable, they are also impossible to empirically test. And without justification of the orthogonality assumption, there is as a rule nothing to ensure identifiability:

With enough math, an author can be confident that most readers will never figure out where a FWUTV (facts with unknown truth value) is buried. A discussant or referee cannot say that an identification assumption is not credible if they cannot figure out what it is and are too embarrassed to ask.

Distributional assumptions about error terms are a good place to bury things because hardly anyone pays attention to them. Moreover, if a critic does see that this is the identifying assumption, how can she win an argument about the true expected value the level of aether? If the author can make up an imaginary variable, "because I say so" seems like a pretty convincing answer to any question about its properties.

Paul Romer: [*The Trouble With Macro-economics*](#)

The theoretical conditions that have to be fulfilled for regression analysis and econometrics to really work are nowhere even closely met in reality. Making outlandish statistical assumptions does not provide a solid ground for doing relevant social science and economics.

Although regression analysis and econometrics have become the most used quantitative methods in social sciences and economics today, it's still a fact that the inferences made from them are usually of questionable validity.



Economics as science and ideology

By [Peter Söderbaum](#)

Book review of Offer, Avner and Gabriel Söderberg, [The Nobel Factor: The Prize in Economics, Social Democracy and the Market Turn](#), Princeton University Press, Princeton 2016.

Since 1969 there has been a so called Nobel Economics Prize. It is not a normal Nobel Prize established by Alfred Nobel but rather a prize reminding us of the 300 year existence of the Central Bank in Sweden. The correct name is "The Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel". The history of this prize, how it came about and its development over the years with Laureates and their achievements is now presented by two scholars in Economic History, Avner Offer and Gabriel Söderberg.

Offer and Söderberg appear to be well acquainted with developments in mainstream economics and the different achievements by the winners of the prize. However, their study is of interest mainly because they depart from neoclassical economists in their approach. Mainstream economists believe in value-neutrality (or at least behave as if they believed in value-neutrality). For Offer and Söderberg, value issues are instead at the heart of analysis. They are interested in the ideological and political role of "the Nobel Factor" over the years.

Beliefs in value-neutrality suggest that the values or ideological orientations of economists are of little interest. The scholar is just looking for the truth about economic agents (households and firms), the functioning of markets and the economy as a whole. In fact this value-neutrality idea functions as a "limited responsibility" doctrine for the neoclassical economist as scholar.

There is a photo or painting of Gunnar Myrdal (with his wife Alva Myrdal) on the front page of the book. Myrdal received the Bank of Sweden Prize in 1974. His first publications can be described as neoclassical but he later evolved into an institutional economist arguing for example that "values are always with us" in research and education (Myrdal, 1978). Myrdal is presented – deservedly, I think – much as a hero throughout the book while another Swede, Assar Lindbeck, Chair Person for a long period of the Bank of Sweden prize committee, is depicted in less than enthusiastic terms. Myrdal, himself a Social Democrat, was sceptical of the market and economic growth fundamentalism of neoclassical theory. He emphasized a constructive role also for government in the economy. Lindbeck similarly had his background in Social Democracy but accepted and advocated more of a "market turn" in policy advice and also in the selection of Laureates. Lack of realism about assumptions (about "imaginary worlds" and "imaginary machines" to use the vocabulary of Offer and Söderberg) was not a disqualifying feature.

Neoclassical economists such as Lindbeck want us to understand economics much like physics and chemistry. This is a mistake, as I see it. Economics is science in some sense but at the same time it is ideology. The Bank of Sweden Prize is therefore rather similar to the Nobel

Peace Prize. Are the candidates in addition to their scientific capabilities contributing to a better society in some sense? Since there are many ideas about a better society among economists only pluralism and democracy is a reasonable point of departure. Economics needs to be democratized (Söderbaum and Brown, 2010).

Sweden as a society is a democracy. This democracy can be further strengthened in many ways. Unfortunately, university Departments of Economics are best characterized by a close to monopoly position for neoclassical theory in education and research. And for a long period Assar Lindbeck was the single most influential person as described in the book. Economics in Sweden and also in other parts of the world has been close to a dictatorship. This situation is not necessarily very disturbing for a well-educated neoclassical economist who can readily assume that economics is characterized by value-neutrality. In that case, realism of assumptions is not a big issue.

For Sweden as a scientific community and democratic society it is a considerable step forward that scholars at university Departments of Economic History are scrutinizing developments in economics. Also students of political science, management science and social psychology can mitigate the negative impacts of a neoclassical monopoly in economics. And heterodox economists of different schools can certainly contribute.

One observation that follows from the reading of Offer and Söderberg's book is that, so far, there are no winners of the prize active in the fields of climate change, and, more generally, of sustainable development. The reason may be that neoclassical theory and policy advice (with markets for pollution permits etc.) has not been very successful in relation to these issues which – according to many – are fundamental to the survival of mankind.

My advocacy for pluralism certainly includes neoclassical theory among options. According to the 'opportunity cost principle' also neoclassical theory should be considered. 'Paradigm-shift' ideas by Thomas Kuhn (1970) should be replaced by 'paradigm co-existence'. There is plenty of room also for improvements in neoclassical theory by abandoning somewhat naïve preferences for a mathematical language, as argued by Tony Lawson (2015). Again mathematics has a role but mathematics is a poor language in relation to some of the complex challenges now facing humanity.

I hope that *The Nobel Factor* will be read by many and can firmly recommend the book. It is possible to find weaknesses in the arguments, for example when the authors suggest that Ricardo's international trade theory



in terms of comparative advantage is elegant and successful. This theory assumes away many complexities of the real world, such as the fact that there are competing ideological orientations and interests in each one of the trading nations. The theory of comparative advantage is as dangerous as many of the other neoclassical theories. We need to start with a different view of individuals, of organizations and markets than that of neoclassical theory. We even need a different understanding of economics as a discipline and of the economy. But this is another story.

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Narrative fixation in economics By [Edward Fullbrook](#)

The WEA's latest ebook ([see here](#)) is by Edward Fullbrook. In his preface he describes the motivation for the book:

Determinism, the idea that everything that happens must happen as it does and could not have happened any other way, and atomism, the idea that the world is made up of entities whose qualities are independent of their relations with other entities, are fundamental components of classical mechanics. Atomism is also central to the concept of mind developed in John Locke's *An Essay Concerning Human Understanding*, published (1690) three years after Newton's *Principia*. Locke's general conception of the human mind became commonplace among 18th-century philosophers, so when Adam Smith came to write the foundational text for economics, *The Wealth of Nations* (1776), he had the example not only of Newton's material atomism, but also of Locke's extension of it to an altogether different area of inquiry. If atomism could form the basis of a theory of ideas, then why not apply it as well to a theory of human beings?

Of course Smith did not limit his vision of economic reality to what could be seen through the metaphysical lens of classical mechanics. But a century later the founders of Neoclassical economics did exactly that and even boasted that they were doing so. Their justification of course – and it was a plausible one at the time – was the enormous success that exclusive devotion to this approach had yielded in physics. In time, especially from the 1960s onwards, undivided allegiance to this determinist-atomistic narrative became, with few exceptions, a basic requirement for making a career in economics.

History, however, has shown that there was a great irony in economics' decision to become zealously fixated on taking this particular approach toward economic reality. In the same decades that Neoclassical economics was being created, physics was moving rapidly away from its insistence upon the determinist-atomistic narrative and towards narrative pluralism.

The achievements resulting from this opening up of physics to other narratives have been even more spec-

tacular than those that came from classical mechanics. Without that intellectual liberation, human reality would be radically different from what it is as I write.

But economics – except among a now widening fringe heavily supported by the young – remains locked in the same narrative dogmatism from which physics escaped a century and a half ago. Meanwhile economic evolution has continued. And as the gap between economic reality and the Neoclassical portrayal of it grows ever wider, Neoclassical voices become shriller and their arguments, when placed within the context of the real-world, ever more farcical. Understandably in self-defence, but shamelessly and ultimately at great cost to humanity, economics in its traditional centres moves ever further away from the ethos of science and becomes ever more ruthlessly devoted to scientism.

This book, against the background of modern physics' narrative pluralism, considers the foundations of the single narrative path along which mainstream economics has for so long travelled and the increasingly bizarre narrative to which it has led. As Einstein said, "It is theory which decides what can be observed," and as history's decades pass, what Neoclassical theory enables us to observe becomes less and less, until even colossal economic events on the eve of their happening go unnoticed. Whereas the Global Financial Collapse of 2007 was foreseen years in advance by Baker, Borio, Godley, Hudson, Keen, Pettifor, Richebächer, Roubini, Shiller, Soros, White and other economists not circumscribed by Neoclassicism, its approach right up to the day of its happening was unobserved by those who were. Meanwhile the economy's death threat to the ecosystem remains for the Neoclassical mainstream an irrelevancy, as do the enormous upward redistributions of income and wealth undermining society's fundamental structures and now giving rise to Trumpism and the new fascism in general. Scientism is always a farce, but in this case it is one leading humanity towards devastation. We, economists and non-economists, urgently need to understand this intellectual cult threatening us all.

Political Economy: Pluralism, International Trends and National Differences IIPPE's 7th Annual Conference

By [Al Campbell](#)

IIPPE's Seventh Annual Conference in Political Economy took place at the School of Economics & Management (ISEG) at the University of Lisbon, September 7 – 9. With Political Economy understood as alternatives to mainstream economics that study the way humans socially organize to provide for their material needs and the effects on them of that organization, this year's conference focused on the one hand on national and regional differences in Political Economy, and on the other hand on important world-wide trends in it. Participation jumped 50 percent above our highest previous level. Was it the deteriorating (except for the rich) world economy, or was it the attraction of beautiful (and militant) Lisbon? There were 84 academic panels, presented by 323 participants. In addition, the activist part of the program expanded greatly over the previous year. There were 13 activist panels, presented by 31 participants (a few people presented on both academic and activist panels). There were 16 films comprising 7 of the activist panels, that ranged in length from shorts of 3 and 4 minutes to full length documentaries of 110 and 98 minutes.

The host institution is an important center for heterodox research and anti-neoliberal policy proposals in Portugal, alongside the work of its more mainstream members. As is usual at IIPPE annual conferences, the mechanics of the operation of the conference depended on the participation of students from their program, and from neighboring institutions, who are interested in heterodox political economy.

The first plenary session was "Current Currents in Political Economy." Diane Elson presented "The Political Economy of 'Economic Inequality' and 'Gender Inequality'" and Malcom Sawyer presented "The Contributions of Political Economy to the Understanding of Financialisation." The second plenary was "National Developments in Political Economy." Aleksandr Buzgalin presented "Prolegomena to New Qualities and Limits of the Market, Money and Capital. Post-Soviet School of Critical Marxism" and Samir Amin presented "Reading Marx's Capital, Reading Historical Capitalisms, the Challenge Today." The closing plenary, organized as traditionally by the Local Organizing Committee, was "We Told You So: the Centrality of Political Economy." Nuno Ornelas Martins presented "Political Economy and Hegemony: Comparing the Surplus Approach and the Scarcity Approach" and Ana Cordeiro Santos presented "A Research Program for Financialisation: Reflections from the Portuguese Case."

As in past years, the 3 day conference was preceded by a daylong Training Workshop directed to fundamental theoretical issues in heterodox political economy. This year it was on "Value and Price." These Workshops are directed particularly toward young scholars, who in most graduate economics programs today get less and less exposure to theoretical issues in political economy, and instead more and more training in mechanical and technical issues of mainstream economics. Notwithstanding this orientation of the Workshops, this author can certify from attendance that the material can also be of great interest to at least some like myself who through no stretch of the imagination could be classified as young, and do have a strong background in the topic presented. The Workshop was coordinated by Simon Mohun.

The Thursday night Conference dinner was in the city center near the Restauradores Square at Casa do Alentejo, a picturesque 30 minute walk for those so inclined from the conference venue.

The social programme, which follows the conference proper every year, seeks to provide a space where people can meet and discuss their research in a relaxed, informal environment. This year's social programme was organised round the theme of Portugal's twentieth century revolutionary past. The first part of the daylong event consisted of a tour of the Museu do Aljube-Resistência e Liberdade. Housed in a former prison facility near the cathedral, the fascinating permanent exhibition chronicles the rise of fascism in Portugal and the subsequent struggle for freedom, democracy and a progressive social-political-economic society. This began with an informative presentation to our group by the director of the Museum. The second part of the programme was a walking tour of Lisbon, that in addition to explaining its history, culture and architecture, visited a number of the places at which important events in the twentieth century struggles occurred, setting the stage for further presentations on those events.

**Next year's 8th Annual Conference in
Political Economy will be in Berlin,
September 13 - 15, 2017**

It will be co-sponsored by the International Initiative for Promoting Political Economy (IIPPE), the Critical Political Economy Research Network (CPERN) and the hosting institution, the Berlin Institute for International Political Economy (IPE).

Fieldwork and model building in economics¹ By [Karim Errouaki](#)²

[Editor's note: This is the first of a two part exposition. Part 2 follows in Issue 7-1]

PART I

Reflecting on the Conceptual Foundations of Fieldwork

Introduction

Fieldwork is scholarly work that requires first-hand observation, recording or documenting what one sees and hears in a particular setting – a rural artisan community, a city market place, hunting and gathering with a highland tribe, or the plush interiors of a corporate head office. It has long been regarded as the mainstay in anthropological research.

The first generation of anthropologists, studying mostly people under colonial rule, had tended to rely on locally based missionaries and colonial administrators to collect ethnographic information, often guided by questionnaires that were issued by theorists from 'back home'. In the late nineteenth century, important ethnographic expeditions were organized, often by museums; and as reports came in, academics would set out the findings in comparative frameworks to illustrate the course of evolutionary development or to trace local historical relationships.

Fieldwork has not been prominent in economics, though there have been exceptions (for example, the Institutionalists, work in industrial organization, labour economics and informal economy, and more recently in development economics). But most so-called empirical work today is based on number-crunching. Fieldwork in economics is necessary, for example, to give us a picture of markets in operation, of the institutions that organize production and sales, and the way work is structured – as seen from the inside, and balanced against the official picture, for both – and the contrasts will be part of the truth. Without fieldwork we cannot know the operating rules in our economic institutions, or the true motivations of agents.

Coase (1937) argued that 'it's important to go out and discover the facts for yourself'. Coase developed his ideas about the nature of the firm during a year of visits to firms throughout the USA. The resulting view of the economy gives rise to an account of value, competition and markets that differs from the mainstream. More-over, it supports the view that history cannot be properly studied by equilibrium methods, and that economic analysis is likely to be different in different historical eras.

This note shall be presented in two equal pieces. In Part I we shall present the essential ideas by distilling

here some key insights from anthropology, sociology and management. Part II, in the next issue, will be devoted to the examination of fieldwork in economics.

Defining Fieldwork

In anthropology, Malinowski (1922) is credited as being the most important figure in the development of the modern fieldwork tradition, through his study of the Trobriand Islanders of New Guinea. Equally important contributions were made, however, by Radcliffe-Brown, Evans-Pritchard, Morgan, Taylor, Benedict and others to this tradition of anthropology. Jarvie (1967) claimed that all schools of anthropology emphasize that fieldwork stands at the centre of the subject. Malinowski and Radcliffe-Brown, who thought anthropology was a science, placed the same emphasis on fieldwork as does Evans-Pritchard, who denies that it is a science.

More recently, Rice et al. (2004, p. 1) described fieldwork as generating

"[a] multitude of entanglements, emotional, financial, professional, intellectual or ethical. It is by talking and writing about these experiences in the field that we become familiar with the experiential core of social anthropology, the richness, complexity and contradictions of relationships. The data produced through these often compromised and compromising encounters is ultimately transformed into an authoritative academic text, and these articles seek to elucidate the process through which raw experience has been translated into vehicles for the production of ethnographic knowledge."

The quality of results obtained from fieldwork depends on the data gathered in the field. The data in turn depend upon the fieldworker, the worker's psyche, level of involvement, and ability to see and visualize things that any other person visiting the place might fail to notice. The more open a researcher is to new ideas, concepts and things that they may not have seen in their own culture, the better will be the absorption of those ideas. Better grasping of such material means better understanding of the forces of culture operating in the area and the ways they modify the lives of the people under study. Anthropologists have always been taught to be free from ethnocentrism, the belief in the superiority of one's own ethnic group.

A researcher has to approach people without pre-conceived notions about the various institutions under study. Relying on previous literature is useful to introduce the researcher to a people and their culture.

However, the forces of evolution are at work on cultures and societies just as they apply to biological organisms; as a result, the existing literature may already be outdated. The researcher must gather as much information as possible personally. The collection of 'contemporary' ethnographic data serves to portray the current trends and is invaluable for studying culture change over time.

Contemporary ethnography is based almost entirely on fieldwork and requires the complete immersion of the anthropologist in the culture and everyday life of the people who are the subject of study.

A relevant contemporary example is Ho (2009). Ho looked into the everyday experiences and ideologies of Wall Street investment bankers, the everyday world of investment banking before the crisis. She describes how a financially dominant but highly unstable market system is understood, justified and produced through the restructuring of corporations and the larger economy. She delves into the roots of excessive risk-taking. She worked at an investment bank and shows that bankers' approaches to financial markets and corporate America are inseparable from the structures and strategies of their workplaces; their mission is the creation of shareholder value, but their practices and assumptions often produce crises instead.

A fieldworker spends a great deal of time in the field, observing people. As Thomas (2004, p. 150) has reminded us, 'social scientists are privileged in being able to ask direct questions of the objects they study. Physicists are not able to interview their atoms; if they could, would they be able to remove some of Heisenberg's uncertainty?' But they would have to treat the answers with great caution.

Effective fieldwork depends on qualities that one is born with or must develop through intensive work. Malinowski (1922) is the perfect example; he never had any formal training in fieldwork research yet his work is considered as among the best of all time. The first hurdle a researcher faces is approaching people who may be suspicious of his intentions, who are different in background and whose values and customs are different. A fieldworker can face rejection, so must be strong in mind and convincing enough to persuade those being studied to allow the worker to come and live and work among them. There are things people say and things people mean; a researcher must be able to read between the lines, because nobody wants to present a bad picture about his own community.

Fieldwork places quite different demands on re-

searchers than the current standard methods used by economists (it might also take more time and be more costly, in addition to the different skill set required). There will be distractions to overcome. It is all about focusing on the object of the study. Since the fieldworker may be far from home, finding company and intellectual stimulation may be difficult. One has to be self-motivated. Fieldwork is more mental than physical; it stretches one to the extremities of mental and physical endurance. Diligence, patience, hard work and the ability to withstand bad tidings make a good fieldworker at a personal level, and the ability to understand processes, insight and visions make one good at the academic level.

Anybody who combines both is a great fieldworker, one whose account may well give a reasonably complete and true picture of the people studied. Good work ethics, both in the field and out of it, are an essential part of a good fieldworker. Nothing should be done that destroys the faith which the community under study has put in the fieldworker. Of course, the purpose of the study, and whatever its advantages are, should be made clear to the population under study. Permission, where necessary, should be obtained from the appropriate authorities. The fieldworker must be discreet in presenting sensitive information as results in his report. Good work ethics lend credibility to the researcher, and ensure respect and recognition from among the group he has worked with. They also lay a good foundation for future researchers coming to work with the same people and in the same area.

Bourdieu (1984; 2005) played a crucial role in the popularization of fieldwork in sociology. He sought to connect 'his theoretical ideas with empirical research, grounded in everyday life, and his work can be seen as sociology of culture' or, as he labelled it, a Theory of Practice. His contributions to sociology were both evidential and theoretical. Bourdieu's work continues to be influential. His work is widely cited, and many sociologists and other social scientists work explicitly in a Bourdieusian framework.

Mintzberg played a crucial role in the popularization of fieldwork in management. He published his first book in 1973. This book was based on his PhD thesis at the MIT Sloan School of Management. The thesis title is in itself significant: *The Manager at Work – Determining his Activities, Roles and Programs by Structured Observations*. The thesis was based on an idea shared by a professor at MIT and a senior manager in a company: they wanted to study the latter's work. It

grew into a systematic observation and description of five general managers, about whom we know nothing more than the fact that they were 'efficient' and that they were subjected to the constant presence of Mintzberg, for one week each, every minute of their working day.

Mintzberg's pioneering work established his reputation worldwide as a major figure in the field of management and ethnography of organizations. Mintzberg adopted a method that had hardly ever been used in management research: direct and structured observation (fieldwork). Mintzberg's methodology requires the researcher to follow the steps of each of the general managers no matter what activity they are doing. He must carefully note the slightest action, recording the amounts of time spent on each and entering all the data on a grid, which is later to be used to do breakdowns and calculations, make comparisons, and so forth. The tremendous amount of work that Mintzberg put into the findings earned him the title of leader of a new school of management: the descriptive school, as opposed to the prescriptive and normative schools that preceded his work. The schools of thought derive from Taylor, Fayol, Urwick, Simon, and others who endeavoured to prescribe and expound norms to show what managers must or should do. With the arrival of Mintzberg, the question was no longer what must or should be done, but what a manager actually does during the day. Mintzberg's discoveries and deductions appeared to be a veritable revolution.

An entry in *The Economist* magazine (16 January 2009) pointed out that 'Mintzberg found that managers were not the robotic paragons of efficiency that they were usually made out to be. The pressures of his job drive the manager to be superficial in his actions – to overload himself with work, encourage interruption, respond quickly to every stimulus, seek the tangible and avoid the abstract, make decisions in small increments, and do everything abruptly'.

Fieldwork and Modelling Behaviour and Structure

There are two aspects of the economy, roughly its structure and the typical motivations and behaviour of its agents, which give rise to two lines of analysis. The first looks at the linkages and connections between economic institutions, making it possible to calculate various relationships. The second examines motivation and strategy in various contexts, showing how these can explain behaviour. There is an obvious sense in which each complements the other: structure without behaviour is lifeless, behaviour without structure

has neither basis nor focus.

Fieldwork does not result in scientific theories, let alone covering-law explanations (if there are any such!). Given the above lines of analysis, two types of fieldwork can be distinguished. One kind can give us a carefully drawn picture of institutions and practices, general in that it applies to all activities of a certain kind in a particular society or social setting, but specialized to that society or setting. Although institutions and practices are intangible, such a picture will be objective, a matter of fact independent of the state of mind of the particular agents reported on. Approaching the economy from a different angle, another kind of fieldwork can give us the state of mind of economic agents – their true motivations, their beliefs, state of knowledge, expectations, their preferences and values. These results will also be matters of fact, but they will be records of the subjective states of the agents reported on – their feelings, attitudes, beliefs, preferences and values. Fieldwork is reporting, but it is at the same time an exceptionally sophisticated reporting, because it requires the observer to penetrate the disguises of key roles in society and the economy. This requires careful judgement, since the mask will usually display a partial truth.

Fieldwork and Modelling Structure

Structural fieldwork investigates the economy by looking at relationships in production, exchange, and distribution – such as the linkages between sectors or agents, for example; technological and legal interdependences (input–output relationships, interest on capital, wage or salary contracts); or relationships of status and authority, as in comparing the positions of property or wealth-owners and the property-less in various sectors. Fieldwork establishes the linkages between these features of the system and ranks them in importance; it is concerned with gathering and interpreting statistics, but also with the character of technology, with job titles and descriptions, contracts, chains of command, responsibilities, and so on. Objects of study will include roles (producers and consumers, suppliers of labour or of savings and wealth) and institutions (firms and households).

Adam Smith spoke of a 'system of perfect liberty' – ideally, that is; in reality the agents all face various constraints. But in such a system, even ignoring the constraints, market outcomes will not in general be those intended by the market participants. Some will be winners, others losers, and there will be many who are disappointed at least in part. And while the market coordinates activities, balancing supplies and de-

mands, no one has specifically acted with the intent to bring about such coordination. It comes about as an unintended consequence. Sometimes the market fails, and rather than coordination, it brings about a breakdown:- depression or inflation. To understand this requires putting all the pictures together. In a sense, the final objective of fieldwork in economics is to give us a practical picture of the working of the market.

Fieldwork and Modelling Behaviour

The second kind of fieldwork concerns motivation, attitudes, preferences and other subjective influences on behaviour, given the context – laws, customs, technology, and so on. It is an exploration and mapping of the chief features of the states of mind of the agents, picturing such states as are likely to affect behaviour. It is not, however, personal biography: the issues concern the subjective influences on economic behaviour, typical economic behaviour. Personal histories may well be illuminating, but they are relevant only insofar as they shed light on economic decisions and actions.

These studies can be complicated by the fact that people are not always truthful about their states of mind, and, worse, even if they try to be, they may fail because they are unaware of their own motivations or attitudes, or are subject to self-deception. (In regard to economic questions: where preferences reflect officially discouraged prejudices, for example, the true preferences may not be acknowledged. Also, people frequently understate the extent to which they are motivated by money, and often hold false beliefs about their own and others' wealth, sometimes stubbornly clinging to expectations they know will never be fulfilled.)

To map the actual states of mind of agents is to study people, who are social products and have been prepared for certain roles, acting in the roles which they have assumed or to which they have been appointed. What such a mapping will show is how agents see the world, how they value its various aspects, and how they plan strategy and tactics in regard to economic activities. In particular, it will show their understanding and motivation in regard to the market.

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1. This paper is partly based on material in Chapter 10 of "Rational Econometric Man" (Elgar, 2013), co-authored by Edward J. Nell and Karim Errouaki.

2. Karim Errouaki holds a Ph.D. in Economics from the New School for Social Research (New York). He has taught and lectured in many parts of the world, including New York, Washington, Boston, Montreal, Sherbrook, Vancouver, London, Brussels, Paris, Madrid, Mexico, and Sao Paolo, among others. He is co-author with Edward J. Nell of "Rational Econometric Man" (Elgar, 2013), with Edward J. Nell and Federico Mayor Zaragoza of "Reinventing Globalization after the Crash" (forthcoming in 2017). He is a former Special Advisor to UNSG Prof. Dr. Boutros Boutros-Ghali, to Director General of UNESCO Prof. Dr. Federico Mayor Zaragoza and to the former Democrat Congressman and Majority Whip of the US House of Representatives and President Emeritus of New York University Dr. John Brademas. He is currently Ambassador of the International Organization of Latin-American Mayors in Morocco for Africa, Special Advisor to the Chairman of ECO Capacity Exchange, a leading Trade and Finance global organization based in London, a Senior Research Fellow at the Foundation for the Culture of Peace (Autonomous University of Madrid), and a Special Advisor to the Director General of CAFRAD, Pan-African Intergovernmental Organization.

Needed — a dystopian economics By [Stuart Birks](#)

Aldous Huxley's *Brave New World* (1932) and George Orwell's *Animal Farm* (1945) and *Nineteen Eighty-Four* (1949) are noted examples of dystopian literature. In contrast to idyllic utopian literature, they describe what might be considered to be seriously flawed societies. The authors wished to warn of potential dangers that might arise in the future. Huxley later published a follow-up collection of essays, *Brave New World Revisited* (1958) (BNWR). In it he warned that, his prophecies in the earlier book were coming true much sooner than he had anticipated. He wrote this in the 1950s, but his points seem particularly pertinent today as I will illustrate below. However, first I will give some context.

While not an economist, in BNWR Huxley made some points of particular relevance to economics:

"Omission and simplification help us to understand - but help us, in many cases, to understand the wrong thing; for our comprehension may be only of the abbreviator's neatly formulated notions, not of the vast, ramifying reality from which these notions have been so arbitrarily abstracted." (P. xxi)

And (bearing in mind, rationality, atomism, the efficiency of markets):

"Under the influence of badly chosen words, applied, without any understanding of their merely symbolic character, to experiences that have been selected and abstracted in the light of a system of erroneous ideas, we are apt to behave with a fiendishness and an organized stupidity." (p.136)

Of course, the 20th Century was not the first time that utopian views have been challenged. A disastrous [earthquake struck Lisbon in 1755](#) accompanied by massive tsunamis and widespread fires. This greatly affected Voltaire, among others, and a few years later he published *Candide* (1759). This satirical fiction challenged the view of nature and society being orderly and resulting in "the best of all possible worlds". See [here](#) also. Anyone supporting neoliberal views or basing their opinions on the desirability of perfect competition would do well to consider Voltaire's characterisation of Dr Pangloss.

So what was worrying Huxley in 1958? He argued that:

"Impersonal forces over which we have almost no control seemed to be pushing us all in the direction of the Brave New Worldian nightmare; and this impersonal pushing is being consciously accelerated by representatives of commercial and political organizations who have developed a number of new techniques for manipulating, in the interests of some minority, the thoughts and feelings of the masses." (p.7)

Note that [Oxford Dictionaries Word of the Year for 2016 is post-truth](#).

Also surprisingly prescient in 1958:

"Democracy can hardly be expected to flourish in societies where political and economic power is being progressively concentrated and centralised. But the progress of technology has led and is still leading to just such concentration and centralization of power. As the machinery of mass production is made more efficient it tends to become more complex and more expensive – and so less available to the enterpriser of limited means. Moreover, mass production cannot work without mass distribution; but mass distribution raises problems which only the largest producers can satisfactorily solve... As the Little Men disappear, more and more economic power comes to be wielded by fewer and fewer people." (p.26)

Note the phenomena of the 1 Percent and the [hollowing middle class](#).

And in relation to politics, predating emphasis on discourse analysis (Fairclough, 1995) and news in the form of sound-bites:

"In their propaganda, today's dictators rely for the most part on repetition, suppression and rationalisation - the repetition of catchwords which they wish to be accepted as true, the suppression of facts which they wish to be ignored, the arousal and rationalisation of passions which may be used in the interests of the Party or the State. As at the art and science of manipulation come to be better understood, the dictators of the future will doubtless have learned to combine these techniques with the non-stop distractions which, in the West, are now threatening to drown in a sea of irrelevance the rational propaganda essential to the maintenance of individual liberty and the survival of democratic institutions." (p.48)

Perceptive in many respects, Huxley warnings were tempered by a reassuring note of confidence when he wrote:

"A democratic constitution is a device for preventing the local rulers from yielding to those particularly dangerous temptations that arise when too much power is concentrated in too few hands. Such a constitution works pretty well where, as in Britain or the United States, there is a traditional respect for constitutional procedures." (p.13)

Overall, this suggests that we need an economics which incorporates an understanding of the imperfections of societies and their institutions and the natural and man-made shocks and manipulations which may occur. Of course, it may be that imperfect institutional structures serve to prevent this more relevant economics from developing.

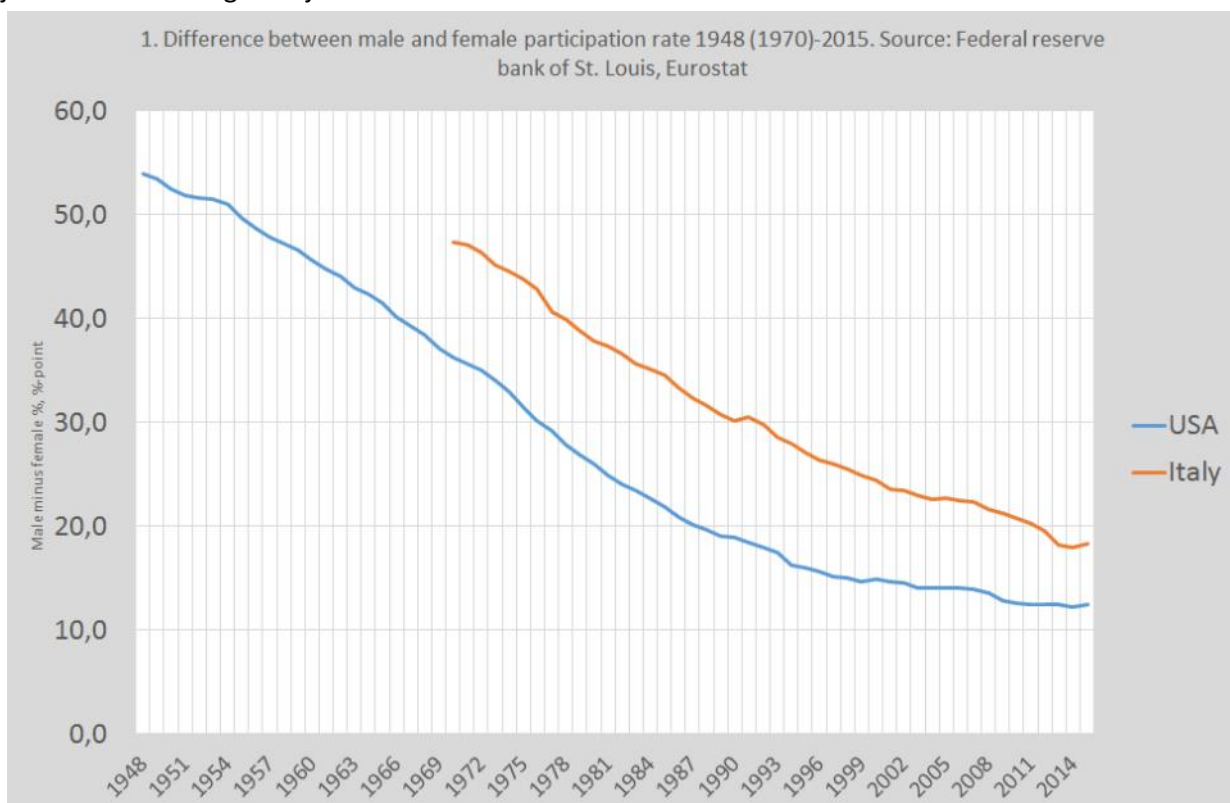
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Models and measurement in economics 5—labour statistics By Merijn Knibbe

We could have known. After 1991, in the wake of a hideous financial crisis, Finnish unemployment skyrocketed from 3% in 1991 to 17% in 1994. Unemployment declined again but even after fifteen years it was way higher than before the crisis. To rise, again, after 2008. And a lasting higher level of unemployment was not the only consequence of the post 1991 Finnish labour market carnage. The crisis also caused people to leave the labour market altogether. Which means that the participation rate – the percentage of the population seeking or having a job – also declined after 1991. To decline, again, after 2008. We know this as statisticians measure these variables. But why didn't we understand these writings on the wall? Why do we still not take such events seriously enough? Was and is this because macro-economic models and ideas of the neoclassical kind, which are used inside central banks and by the European Commission, state that markets quickly return to 'general equilibrium' and publish studies which indicate that even unemployment rates as high as 20% are 'natural' and 'optimal'? (Fioramanti and Waldmann 2016), even when the idea of 'natural unemployment has been thoroughly discredited (Farmer 2013)? This piece investigates differences between the statistical concepts of 'employment', 'unemployment' and other 'work' related macro-economic variables on one hand and the theoretical concepts of such variables on the other hand. And we will see if macro-theorists indeed misunderstood developments like those in Finland. This is part of a series. The first four pieces in this series ([here](#), [here](#), [here](#) and [here](#)) were an introduction, a general comparison of the national accounts and macro theory and discussions of the concepts of capital and consumption.

1. Labour statistics – a short introduction

Macro-economic labour statistics, like the rate of unemployment, are well known. But unemployment is only one of a whole set of indicators. Graph 1 shows the difference between the male and female participation rate in Italy and the USA – i.e. the difference between the percentage of men and women between 16 and 64 who either have a job or are searching for a job.



The development of this particular metric is intriguing: why did the male/female difference decline in such a regular and even almost mechanical fashion? Was this because of the introduction of the mechanization of the household by running water and washing machines (Ha-Joon Chang, 2010, also Cardia 2008)? Or was it The Pill (Goldin and Katz, 2002)? Answering these questions is not the topic of this post. But graph 1 shows that present day labour market data can be used for historical analysis of international changes of the gender composition of the labour market. Before we can start to answer them, however, we have to investigate what these data really measure (the participation data for instance include the unemployed). And we have to investigate if the Italian and USA data real-

ly match. And: what do we count as ‘employment’! The struggle of the statisticians with such questions will be discussed in the subsequent section. The ordeal of neoclassical macro-theory will be investigated in the third section.

2. The statistical concept of labour: recent considerations

Between 28 January and 3 February 2013 a ‘*Meeting of Experts in Labour Statistics on the Advancement of Employment and Unemployment Statistics*’, organized by the International Labour Organization (ILO), took place in (of course) Geneva. One of the advances discussed was a change in the concept of employment and work: ‘*The draft revised resolution introduces the first international definition of work for use in statistical measurement, according to which it comprises “all activities performed in economic units [including households, M.K.] by persons of any sex, in order to produce goods or services for consumption by others, or for own consumption”*’ (ILO 2013, lemma 105). Annex 1 of ILO 2013 (lemma 11 and 12) refines this concept – the sting in the tail being the demarcation between *employment* which, contrary to earlier definitions, is now defined as income generating activities and not as all work (including unpaid work) within the SNA boundaries:

‘For comprehensive measurement, all forms of work can be aggregated to arrive at the general concept of work. The various forms may be used separately or also combined as the basis for, in particular:

(a) employment, to produce statistics of the labour force that comprise unemployment statistics and other measures of labour underutilization;

(b) work within the SNA production boundary (2008), which consists of employment, own production of goods, trainee work and certain volunteer work activities as specified

(c) work beyond the SNA production boundary (2008), comprising own-production of services and certain volunteer work activities as specified.

Two basic observation units, the job and the person, are relevant to the measurement of work A job is defined as a set of tasks and duties performed, or meant to be performed, by one person for a single economic unit’

Aside from work and employment, the proposals of the Experts, which serve as guidelines for statistical offices all over the world, define ‘unemployment’ too. Unemployment is by definition involuntary, a situation which people actively are trying to change – which means that data have to be based upon the aggregated acts and ambitions of individuals and not upon for instance administrative records. Though international conferences are remarkably successful in producing a commonly accepted grid to measure such labour related variables, there are of course still national differences. Look [here](#) for a Eurostat per country overview of data gathering, processing and compilation practices in 31 countries. But by and large the statistical offices do try to estimate the same concept when it comes to unemployment and employment – events in Italy are about the same kind of employment and unemployment as the data assembled by the Bureau of Labour Statistics for the USA (the same cannot be stated for China, however, see Feng, Hu and Muffit 2015). As insights and economies evolve, such concepts evolve, too. At this moment employment includes certain, though not all, kinds of volunteer activities. Supervising a non-profit is included, organizing your local neighborhood BBQ isn’t. One of the proposals of the ILO meeting mentioned above is however that many of these volunteer activities should not any longer be counted as ‘employment’ but separately as ‘volunteer work’ while ‘employment’ should be restricted to income generating work. Employment is measured in persons as well as in hours as well. Next to this, a clear distinction between employment, self-employment and self-employed employing others is made. Diagram 1 shows the classification according to the proposals, at present trainees and part of volunteers are classified as ‘employed’. As a consequence of the changes, the labour force will for instance be somewhat smaller and especially youth unemployment will be higher (as trainees are subtracted from the denominator).

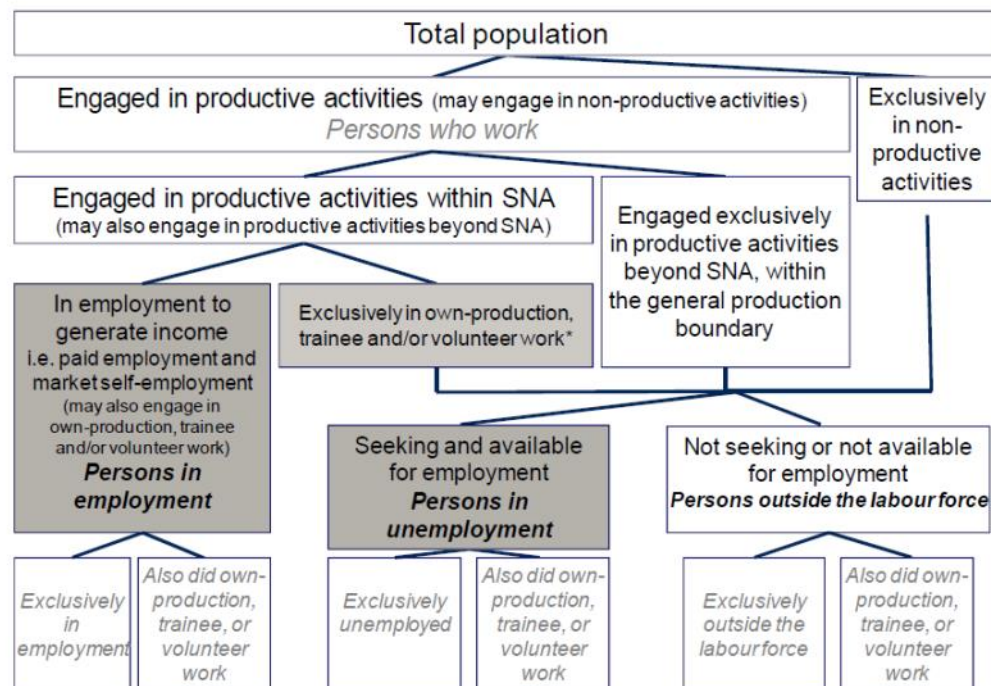
The point: statistics of (un)employment and work are based upon careful consideration of internationally recognized concepts and definitions and the aggregation of data of individual situations and actions. See also Eurostat 2016A and 2016B. The result of recent considerations is that statistics will be more job, activity and income centered and less production centered while several kinds of unpaid work get their own statistical category. Despite these changes, statisticians will of course continue to measure dramatic changes in (un)employment like those in Finland, Italy and the USA. Are the concepts of macro-theorists also adapted to changing insights in the nature of the economy? This will be discussed in the next section.

3. Macro-economic theory

After 2008 (and before, in the Finnish case) macro-economic labour statistics have not been kind to neoclassical macro theorists. Extremely high and tenacious unemployment in an increasing number of countries, lasting participation declines in countries with rising real wages, fast participation increases in countries with large real wage declines (graph 2) – it all flies in the face of neoclassical macro. How do these economists react?

Diagram 1. The revised classification of persons in the labour force framework as proposed by labour statistics experts

Diagram 3. Revised classification of persons in the labour force framework



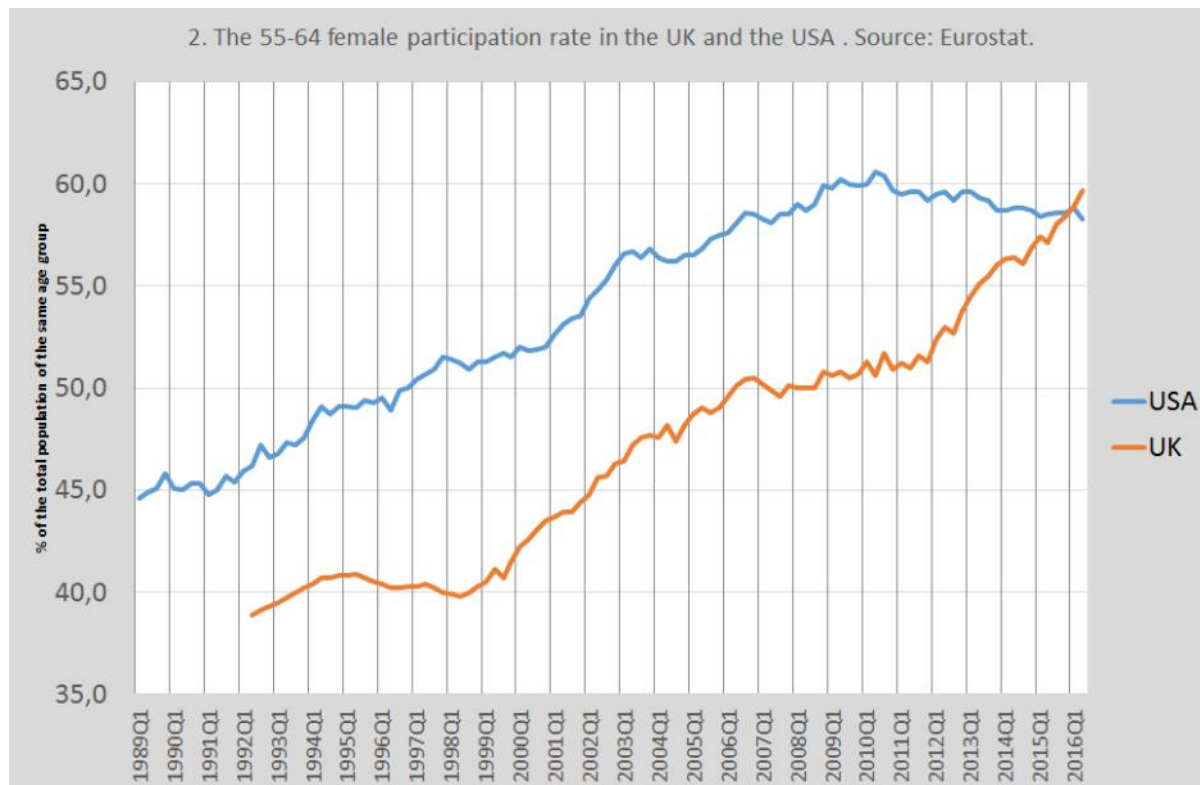
* New treatment based on proposed revised scope of employment.

SNA: system of national accounts. Productive activities beyond SNA: mainly house work.

Source: ILO, 2013.

The neoclassical macro-theoretical concept of employment is, when push comes to shove, fairly simple. People do not like to work and have to be paid to provide labour. The higher the (real) wage the more labour they provide (and hence the larger the labour force becomes). The concept of unemployment is nearly as simple: people are dismissed or enter the labour market and it takes them time to find a (new) job: search theory. This explains unemployment – though there may occasionally also be some short lived cyclical unemployment. A crucial assumption behind these ideas is ‘general equilibrium’: prices and quantities have adapted to a situation where the inter-temporal ‘leisure, consumption and employment’ mix has reached an optimum (in fact: a maximum). This means that unemployment is by definition either of the ‘search theory’ type or quite temporary in case of a ‘shock’. There are empirical problems with these ideas. Post 2008, real wages in the UK declined with about 10% (OECD 2016; Tilly 2016). According to the neoclassical concept this should have led to an epic decline of the participation rate. But it didn’t: after a small drop in 2009 and stabilization in 2010 and 2011, UK labour market participation soared. At the same time real wages in the USA increased (OECD 2016). Despite this participation rates declined (graph 2 below). According to the models (which however do not take rising income or wealth inequality into consideration) the opposite should have happened. It has however to be added that the concept of labour used in the neoclassical models is remarkably fuzzy and authors do not seem to be in agreement if the models are about hours or people. Lawrence Cristiano e.a (2011) state in an overview of the state of the art in which H_t denotes the amount of ‘market work’ sold by households: ‘Under one interpretation, H_t represents the amount of hours worked by a typical person in the labor force ... An alternative interpretation of H_t is that it represents the number of people working’. From a macro as well as from a micro perspective (as the authors admit), these are quite different animals! It is very well possible that employment declines with as much as 20% (like in Finland and later in Spain) while average hours per employed person do not drop. The fuzziness means that it’s not clear what neoclassical economists mean with an

increase of Ht. Cristiano e.a. also state: *'It is well known that much of the business cycle variation in employment reflects changes in the quantity of people working, not in the number of hours worked by a typical household'* and choose 'persons' instead of hours while assuming that especially 'marginal' workers like the elderly and 'spouses' will enter the labour market when real wages increase. But this is their choice – there does not seem to be total agreement about this fundamental point. Anyway, taking 'persons' as a variable graph 2 shows that at least in the UK the participation rate of elderly women skyrocketed when real wages started to decline after 2008, while the opposite happened in the USA. The backward bending supply curve of labour, i.e. the idea that in the long run higher wages lead to a lower quantity of labour supplied (in hours per year), is sometimes mentioned by these economists (see the first part of this series) but it's not in the models.



Events like these have not escaped the notice of neoclassical economists. Nucci and Riggi (2016) explain the absence of a decline of the participation rate in the EU by introducing the idea that home production is important, by assuming 'habit persistence' (i.e. the idea that people do not like the drop of consumption caused by becoming unemployed or, in plain Anglo-Saxon, 'the rent has to be paid') and the idea that wages are sticky, which lures people into the labour force (alas, their household economy is still not the dynamic, investing sector with the kind of mayor technological progress which contributed so much to the rise of the female participation rate). Together, these ideas enable them to 'explain' the problem of the absence of a decline of the participation rate. Aside: they call higher unemployment 'additional looseness in the labour market'. Their variables can however in no way explain events like in the UK where wages *declined by 10% while participation increased*. Another problem with neo-classical ideas, extreme unemployment in countries like Spain and Greece, is tackled by Casares and Vasquez (2016, see also Casares 2010). In countries like Spain and Greece unemployment increased from an already high 6 to 7% to around 25% in a few years which, as even some (but not all!) neoclassical economists concede, cannot be explained by 'search theory'. By 'not all' I mean the economists of the European commission, whose estimates of 22% 'natural unemployment' in Spain have not only been ridiculed on 'heterodox' economics blogs but also by the Wall Street Journal (Dalton 2016). Casares and Vasquez explain Über-unemployment in Spain using 'habit persistence' as well as wages which are set too high by the households (the models are not explicit about the coordination mechanism), which lures too many people to the labour market. Such studies however still use the general equilibrium framework and the assumption that the 'right' level of real wages will quickly solve the problem of unemployment, either by driving people out of the labour force or by increasing production. (Un)employment and wages statistics are not kind to this idea, surely not as real wages in countries like Spain and Greece did show considerable decreases (according to OECD data) without a concomitant drop in the participation rate. Despite this the basic ideas are not changed.

A more fundamental change is proposed by Roger Farmer, who sticks to the rational expectations of the neoclassical macro models and the use of micro-economic utility functions to derive intertemporal optimization of consumption (perhaps the most accessible of his articles: Farmer 2016). But he cuts the consumption-wage-employment nexus out of the models. By severing the relation between consumption, wages and labor supply he also destroys the general equilibrium and 'natural unemployment' setting of these models, which enables a model with 'multiple equilibria' – which enables a description what happened in Finland (and Spain and Greece and Eastern Germany and...). Farmer is also much more explicit about the differences between hours, people and the participation rate and does not shy away for a slightly inductive approach, taking (un)employment statistics at face value. Instead of a DSGE model (Dynamic Stochastic General Equilibrium) such models might be called DSIE models, with 'I' for 'indeterminate'. At this moment, Farmer is however not a 'representative DSGE economist'. Ideas like his might soon carry the day – but that day has not yet arrived.

4. A comparison (not)

The plan was to provide a diagram with a comparison of concepts of the labour market of statisticians and DSGE models. At this moment, however, mainstream DSGE models are too fuzzy about hours, persons, and a 'natural unemployment' variable which they are unable to measure (Fioramanti and Waldmann, 2016; Farmer 2013) that there is little point in doing this. Which, as precise statistical concepts and measurements have been around for decades, leads to the question if this fuzziness might be the very goal of these models. The work of Fioramanti and Waldmann (2016) suggests so. They state that official (indirect) estimates of the 'natural rate of unemployment' for the countries of the EU fail on all scientific accounts. They are, however, still used to discipline countries. More precise concepts might, as Fioramanti and Waldmann suggest, prevent such disciplining or at least mitigate it. Writing this post made me even more aware of this situation. And less happy about the state of theoretical macroeconomics.

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Economics for Dynamic Economies

By [Angelo Fusari](#)

In this article Angelo Fusari summarises the themes in his newly published book, *[A New Economics for Modern Dynamic Economies. Innovation, Uncertainty and Entrepreneurship](#)*, Routledge (Frontiers of Political Economy), 2016, available in hardcopy and ebook formats.



It is becoming increasingly clear that a new economics is required for investigating modern dynamic economies and the coming social world. Important features of those economies, such as innovation, uncertainty and entrepreneurship, are usually considered capitalist features. This may have been true historically, but this book argues that the contrary will be true for the future: the full and efficient operation of those supposed capitalist features will increasingly require the overcoming of capitalist civilization. This book presents a theoretical framework for the interpretation and management of modern dynamic economies which demonstrates that deep institutional transformations are essential if we are to move beyond the current consumer-capitalist age and the age of the domination of financial capital.

The book arises out of a sustained critical reflection on (and dissatisfaction with) the current state of economic thought – a reflection based upon the systematic confrontation of current economics with the content of economic reality. It attempts to construct a theoretical framework more adequate than current formulations for the interpretation and management of the modern dynamic economies.

Part I considers basic aspects of modern dynamic economies that are largely ignored by the dominant schools of economic thought, or are at best mentioned merely for the sake of the appearance of completeness, and which, in addition, are largely misunderstood by the dissenters from the dominant doctrines. At the beginning, the book discusses some of the most important variables of modern dynamic economies, such as innovation, uncertainty and entrepreneurship as well as the explanatory power of their interactions, and directs some criticisms to past economic thought for completely or partially ignoring these variables. Afterwards, those criticisms are expanded by turning to the method of economic and social science, showing that the analysis of social reality needs a third method that is in addition to and distinct from those of the natural sciences and the logic-formal sciences – a method that is founded on completely different postulates, rules and classifications. On such a basis, some contemporary conflicts among schools of thought are dis-

cussed, particularly the opposition between mainstream and heterodox economics, which troubles current economic theory and even the teaching of eminent scholars. Then a representation of the whole economic system is offered, centred on the interrelationships between entrepreneurship, various kinds of innovations and radical uncertainty in a 'dynamic competition' process. The devised model has been formalized at the maximum level of sectoral disaggregation (one sector for each specific good) and simulated with a restricted number of sectors. It provides an explanation of business cycles that largely differs from current explanations, as it derives from the notion of dynamic competition and shows that the duration of cycles, especially the long waves, is shortened by the intensity of dynamic competition as a result of the values of some parameters. The analysis and formalization is then extended from the sectoral to the micro level, and a micro analysis with regard to the firm is developed, followed by a substantial broadening to radical uncertainty, the most typical and the most embarrassing element of economic dynamics, and probably, notwithstanding its growing importance, the most misunderstood.

provides an explanation of business cycles that largely differs from current explanations, as it derives from the notion of dynamic competition and shows that the duration of cycles, especially the long waves, is shortened by the intensity of dynamic competition as a result of the values of some parameters. The analysis and formalization is then extended from the sectoral to the micro level, and a micro analysis with regard to the firm is developed, followed by a substantial broadening to radical uncertainty, the most typical and the most embarrassing element of economic dynamics, and probably, notwithstanding its growing importance, the most misunderstood.

In more detail:

The extension to the micro level provides a more complete representation of the economic process as a whole, bringing to light in particular entrepreneurial action. It shows the great gulf between the book's construction and the Walrasian approach, highlighting the explanatory poverty of the latter. The question of the firm is considered in close connection with the phenomenon of radical uncertainty. Some of the main issues in the dense debate over the firm are set out and criticized, most notably the controversy between those who, distrusting organization and favoring spontaneous motion, tend to pass over the significance of the firm, and those concerned with the evolution of institutions that, on the contrary, see the firm as a crucial economic institution. The book also offers some reflections upon the problem of the size of the firm. An analysis of the limitations of and stimulants to dimensional growth is undertaken. A discussion is performed of the objective or institutional nature of the factors counteracting the boundaries to a firm's dimensions, thereby obtaining knowledge of the degree of inevitability of the dimensional growth of the firm. In parallel, attention is dedicated to an increasingly incisive phenomenon in modern dynamic societies: radical uncertainty, clarifying at first the difference between expectation and uncertainty, with the former expressing the at-

tempt to penetrate the inherent vagueness of the future, and the latter providing an expression of the degree of ignorance on future events as resulting from the instability or delusory nature of expectations. The importance of measuring the variable uncertainty at sectoral level is insisted on, with the benefits of BTS (Business Tendency Surveys), as enabling the definition of various indicators of radical uncertainty. The failures of opinion polls, as based on a probabilistic feature, in predicting the results of elections, are stressed. In the presence of growing changes in people's opinions, it would be more judicious and illuminating to measure the degree of uncertainty based on the frequency of the changes of opinion with regard to different programmatic proposals or other questions. A simple model based on the interaction between uncertainty and innovation is formalized; it examines the connected business cycle; some econometric estimations of the model for Italy, the United Kingdom, France and Germany indicate differences between these countries in the operation of the phenomenon of dynamic competition.

Part II moves from the theoretical side of our work to the reformations it implies or suggests and to questions of political economy more generally. Specifically, the analysis now combines the account of the process of dynamic competition and the cyclical motion it implies, with the notion of particular historical phases of development: a combination disregarded by current economics and yet essential if we are to understand the changing character over time of growth processes and cycles. The earlier treatment of institutions now facilitates a distinction between different historical phases as well as a perception of the circumstances of their advent. This supplies important knowledge concerning the basic content of present and future ages as well as the changes over time of cyclical behaviour.

Those developments allow important clarifications on a theme that has generated substantial misunderstanding and yet long been a great source of inspiration for political economy, namely Keynesian and post-Keynesian assumptions as to the leading role of demand in the economy and in the definition of economic policies. The book points out that the appropriateness of demand-led modeling is referable to the phase of monopoly capitalism, as characterized by high profits, low wages and unstable expectations that hold investment back well below profits, thereby causing a systematic deficiency of effective demand. But such appropriateness is far less evident in more recent ages, which therefore demand an attempt to delineate a political economy more appropriate to newer phases of development. Moreover, the analysis underlines that the demand-led hypothesis cannot be applied to underdeveloped and dualistic economies: the operation of bottlenecks and diffused disequilibria prevents demand-led policies from stimulating growth and development.

The changing role of some important monetary and financial variables over the course of different phases of development is considered, highlighting the peculiar role of money in the phase of monopoly capitalism, characterized as it is by a chronic deficiency of effective demand. Then the author turns to the controversy between Keynesians and monetarists, and points out the inappropriateness of both interpretations to the phase of consumeristic capitalism. In the phase of financial capitalism, characterized by the dominance of international finance capital on a global scale, the inadequacy of both Keynesian and monetarist interpretations appears exacerbated.

The notion and the content of phases of development are of crucial importance if we are to be able to delineate the basic reformations needed over the course of life of economic systems. A key step in satisfying such a need is a sound proposal concerning the organization of financial markets that aims to eliminate the domination of financial capital that is characteristic of the current phase of financial capitalism. Thus a final section attempts to depict a national and international financial order not enslaving production but which is rather at its service.

The book also delves into the ethical dimension, primarily in relation to questions of social justice when combined with the operation of freedom and creativity. In other words, it is considered a functional need to combine diversity, which is essential to the expression of creativity, with social justice (which is essential to the extraction of the creative skills that are casually dispersed among a great number of people) so as to ensure a complete expression of individual skills and, hence, the realization of the connected evolutionary potential. It is clarified that this need also implies and requires the operation of some other important ethical principles, such as tolerance, free thinking, and the role of the individual. Consequently, these organizational and ethical needs appear to be endowed with an objective substance, rather than the subjective one imputed to them by ethical relativism.

Finally, the book analyzes a central question of modern society: how does one best use 'the instrument of the market' – this being a basic mechanism of organizational efficiency in dynamic economies as characterized by a high degree of uncertainty – in such a way as to prevent the market itself from turning everyone and everything into expendable tools, with consequences that are ever more disastrous for equity and for human dignity. The purpose here is to envisage the possibility and, more importantly, the necessity of economic forms of human society that are *different* from those that have emerged from the spontaneous transformation of the Western world. Persisting in the denial and ignorance that such a possibility of *change* is indeed possible will inevitably lead to the (often fanatical) conviction that the capitalistic market, with all its degenerations and inefficiencies, is the unavoidable,

even if bitter, outcome of institutional evolution – a necessary, teleological fruit of human exertion; in a sense, the end of history.

Students and practical people's attitudes toward social phenomena oscillate between two opposite positions: the idea that those phenomena must be considered and accepted as spontaneous events and the pretension to govern them. This book points out the intermingling of the two aspects in the life of each social system. As a matter of fact, the history of human societies and the logical sense confirm that spontaneous forces and their governance always operate together, even if one or the other can be largely prevalent in various cases. The suffocation of spontaneous forces obstructs creativity, thus causing stagnation. On the other hand, the ability to govern society is more and more required by the steady acceleration, via creativity, of social change. The book insists on the possibility of driving market economies outside a capitalistic context (what after all is a necessity in the modern world) and the way to do that.

One of the chief economic problems of the West has been its increasing reliance on a strange sense of sublimated superiority, which it has erroneously imputed to the most proximate origin of its wealth: the capitalist market. The inference is mistaken in that the source of this wealth, whatever the merits and demerits of its nature and uses, lies in human ingenuity rather than in the capitalist machine, whose essentially constrictive and feudal countenance has come, fraudulently, to represent Western economy as a whole. But capitalism is not Western inventiveness as a whole; it is but a proprietary scheme that has usurped all the fruits of Western creation. And this tragic *quid pro quo* has led the West to clash violently with the rest of the world. In truth, the capitalist system is the source of so many disadvantages to the Westerners themselves: namely, social injustice, poisoned labour relations and the threat to human dignity; social and geographical disequilibria; the wideness of fluctuations; the sorceries and distortions promoted by the hegemony of financial capital; and finally the suffocation of entrepreneurship,

J M Keynes Writing Project

This is a project to publish ALL of J M Keynes' writings. It is headed by Rod O'Donnell of the University of Technology at Sydney. A crowd-funding campaign raised some money for this, but more is needed. Although the crowd-funding campaign has now closed, it is still possible to donate funds directly to the project. For further details, see [HERE](#) or email Rod at: jmkwritingsproject@gmail.com

Sustainability economics and missing points in the sustainability dialogue

A follow-up to the WEA organized conference with this title is now available. [A special issue of International Journal of Sustainable Development \(Volume 19 No 2\)](#) has been published with an Editorial (by Peter Söderbaum, Malgorzata Dereniowska and Joachim Spangenberg) and the different contributions.

The WEA - journalism and communications support needed

The WEA needs to build up its public profile. So we are looking for names (and ideally email addresses) of journalists in various countries around the world who might be sympathetic to and interested in writing about or at least referring to the WEA. So please give a thought to possibilities and send suggestions to:

wea@btinternet.com

We also could use someone to act as the WEA's communications director.

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