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WEA Commentaries*

A publication of the World Economics Association.

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

* Formerly the World Economics Association Newsletter

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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.

Economics 10{whatever}

By Peter Radford

I have been less vexed about economics recently precisely because I have been focused on other, and more urgent, topics. The politics of our age are wondrously absorbing, if not a little disturbing. In any case I do try to keep an eye on what economists are up to. In that endeavor I came across a short article by Diane Coyle on the website "Project Syndicate". If you want to know what is occupying the establishment it's a good place to visit periodically.

And Professor Coyle is decidedly establishment.

Her article is couched as a book review/discussion of what ails economics. In it she attempts to refute the notion that economics is lost in a desert of its own making, as I and many others would suggest, but rather, she argues, it is vibrant and rapidly modernizing. She tries to persuade us that critics, like me, just don't get what's going own at the frontier of the discipline. There are, apparently, a load of breakthrough ideas some of which might make it into the textbooks sometime in the future.

Great.

But not great enough.

Two paragraphs towards the end of her article illustrate the issues:

Behavioral psychology, complexity theory, agent based modeling and the like, along with historical narratives, and emphasis on institutions, methods such as randomized control trials and now big data and AI, are by no means a coherent new mainstream. It takes time to change curricula, and institutional inertia makes new approaches too risky and difficult for young economists seeking academic jobs and promotions.

What do we make of this?

On its face Coyle seems to be telling us that lots of exciting things are going on. After all throughout the article she is hinting at the new work people such as Andrew Lo are doing. Lo is the author of one of the books she reviews and she clearly is an advocate of his work. But, she tells us, he has been striving away at his non-mainstream efforts since 1986. Presumably that is most, if not all, his academic life. He is one of the people, Coyle lets us know, trying to incorporate advances in the human sciences into economics. He has, presumably, failed so far. After all not much of the modern economics curriculum is built on the kind of psychology and evolutionary theory Lo specializes in. By not much I mean really little. As in if you squint really really hard you might see a vague trace of it.

This is, of course, not Lo's fault, but for Coyle to swat aside the critics by reference to a body of work that still sits resolutely outside the mainstream doesn't bolster her argument. It weakens it.

Yes behavioral psychology is being taken on board in economics. Its about time. It is decades late. But the textbooks don't yet reflect the change. They are firmly stuck in the past. Nor, in Coyle's own words, is the profession apparently keen on updating itself. In her own words: it is difficult, if not impossible, for new ideas to form the basis of activity for young economists bent on climbing the professional ladder. Inertia seems to get in the way.

Doesn't it always?

Perhaps in a generation or two we might finally purge the extraordinarily simple and naive version of psychology that still dominates economics. It was included not as an effort to understand human activity and its motivations, but to make analysis tractable. It was a prop for other ideas that needed to be given a footing. It wasn't a result of serious study beyond that of the mid to late 1800's when a description of utility and so on was deemed useful during the so-called "marginal revolution". It was an afterthought, in other words, to a need to make economics appear more scientific. As psychology is has always been absurd, but economists aren't psychologists, so they adopted absurdity with brio and dash in the service of their broader agenda.

Coyle goes on …

Practicing economists outside universities do not keep up with the research frontier — although even here, useful tools such as behavioral economics, complexity theory, market design, and network theory are making significant inroads. Still, the economics taught in university departments, practiced in financial firms, and applied by policymakers remains heavily reliant on old-fashioned reductionist rational-choice models.

Exactly, Professor Coyle. Exactly.

But what do you mean?

The first sentence implies that those of us out here in the real world are behind the times. This is something I would contest strongly. My experience is that the ideas mentioned in that first sentence are more likely to be thought about and tested outside a university than inside. At least in terms of a broad definition of economics. The business strategy world is steeped in them. It has been for a while now. I realize that economists still see business theory as a stepchild of economics not worth spending time on, but there's some real action out there. And that action is having a direct impact on the economy. After all it is practical.

Then the second sentence appears as a non-sequitor. Having, fairly directly, disparaged non-university economics as being distant from the cutting edge, Professor Coyle then goes on to suggest that university departments too remain heavily reliant on old fashioned models. Worse still, policymakers are way behind too.

So where is the cutting edge?

Somewhere other than most universities. And certainly not in places like the Federal reserve Board, the World Bank, of the International Monetary Fund all of which are staffed to the gunnels with economists. Out of date very one of them.

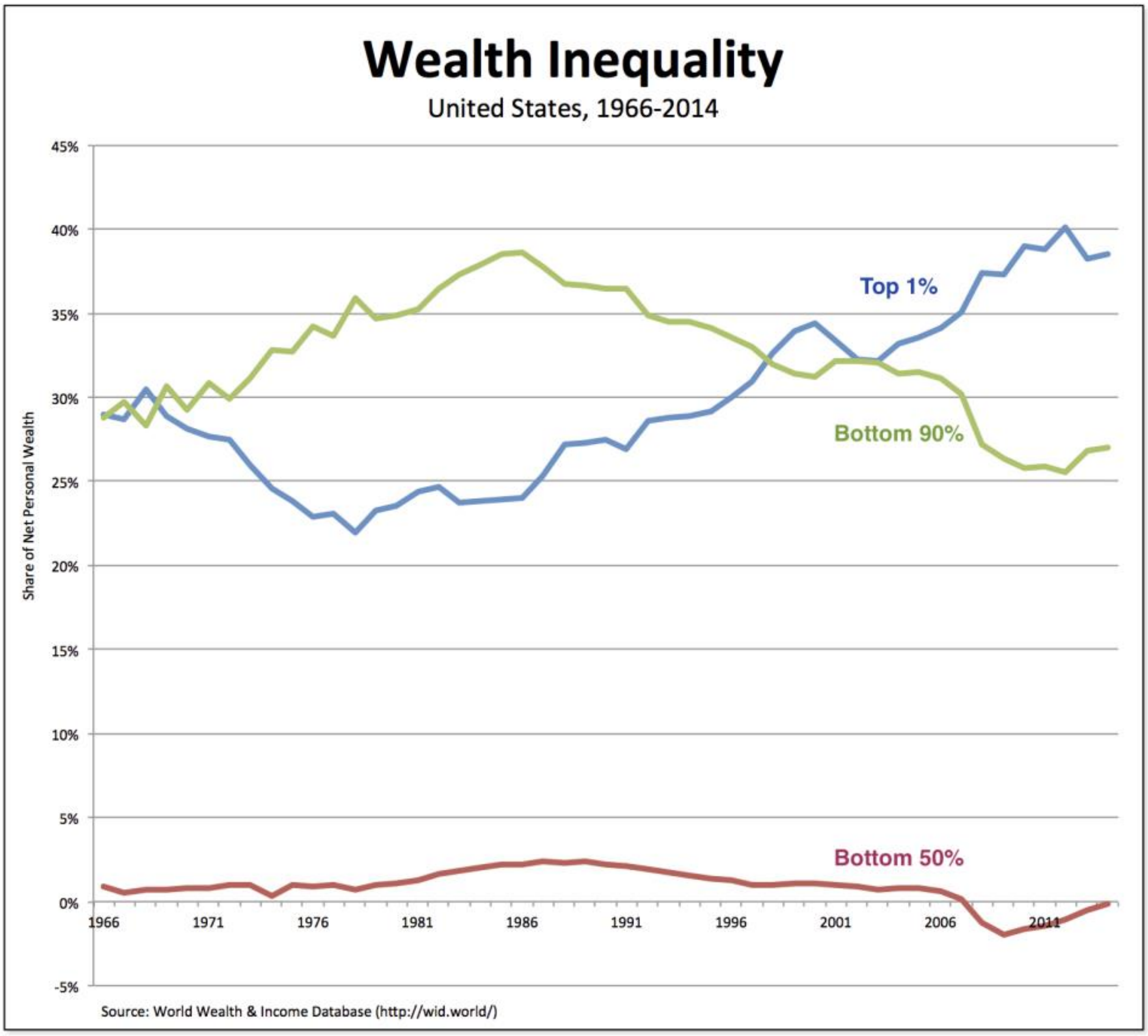
Now, I don't want to be unfair: Coyle has a point. There is lots of good stuff going on. It's just that, as Lo's career illustrates, it takes ages, if not generations, for it to appear in the mainstream.

So: if you are a student wanting to be on the cutting edge and you want to understand the economy — the real one and not the oddity that economists study — get out and about. Go study somewhere where the new ideas are being absorbed more rapidly. Or, alternatively, go locate other disciplines where those ideas are already old hat. You can then study the economy through the lens of contemporary thought without having to wait for the stodgy world of economics to catch up.

The odds are that it won't.

American Myth

By David Ruccio



One of the most pernicious myths in the United States is that higher education successfully levels the playing field across students with different backgrounds and therefore reduces wealth inequality and represents the solution to job losses.

The reality is quite different—for the population as a whole and, especially, for racial and ethnic minorities.

As is clear from the chart above, the share of wealth owned by the top 1 percent has risen dramatically since the mid-1970s, rising from 22.9 percent in 1976 to 38.6 percent in 2014. Meanwhile, the share owned by the bottom 90 percent has declined, falling from 34.2 percent to 27 percent. And that of the bottom 50 percent? It has remained virtually unchanged at a negligible amount, falling from 0.9 percent to zero.

During that same period, according to the U.S. Census Bureau (pdf), the proportion of Americans aged 25 to 29 with a bachelor's degree or higher rose from 24 percent to 36 percent. (For the entire population 25 and older, the percentage with that level of education rose from 15 to 33.)

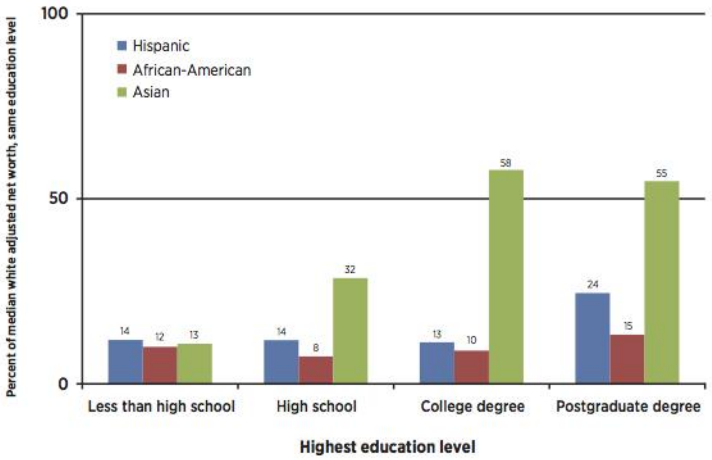
So, no, higher education has not leveled the playing field or reduced wealth inequality. In fact, it seems, quite the opposite appears to be the case.

And that's true, too, for racial and ethnic disparities in wealth. As William R. Emmons and Lowell R. Ricketts (pdf) of the Federal Reserve Bank of St. Louis have concluded:

Despite generations of generally rising college-graduation rates, higher education's promise of significantly reducing income and wealth disparities across all races and ethnicities remains largely unfulfilled. . .rather than promoting economic equality across all races and ethnicities, higher education unintentionally has become an engine for growing disparities.

FIGURE 4

Median Adjusted Family Net Worth (2013)



FEDERAL RESERVE BANK OF ST. LOUIS

Thus, for example, median Hispanic and black wealth levels decline relative to similarly educated whites as education increases until the very top. Moreover, only about 7 percent of black families and 5 percent of Hispanic families have postgraduate degrees, and wealth disparities remain large even there.

Darrick Hamilton and William A. Darity, Jr. (pdf), who participated in the same symposium, go even further. According to them, the United States has a fundamental problem in discussing wealth disparities according to race and ethnicity:

Much of the framing around wealth disparity, including the use of alternative financial service products, focuses on the poor financial choices and decisionmaking on the part of largely Black, Latino, and poor borrowers, which is often tied to a culture of poverty thesis regarding an undervaluing and low acquisition of education.

Thus, while they agree that a college degree is positively associated with wealth *within* racial and ethnic groups, it is still the case that it does little to address the massive wealth gap *across* such groups.

We're also learning that another part of the American myth, encouraging young people to attend college to compensate for the loss of jobs, doesn't work either. In fact, when states suffer a widespread loss of jobs, the damage extends to the next generation, where college attendance drops among the poorest students.

That's the conclusion of new research Elizabeth O. Ananat and her coauthors, just published in *Science* (unfortunately behind a paywall). What they found is that

local job losses can both worsen adolescent mental health and lower academic performance and, thus, can increase income inequality in college attendance, particularly among African-American students and those from the poorest families.

Their argument is that macro-level job losses are best understood as "community-level traumas" that negatively affect the learning ability and the mental health not only of young people who experience job loss within their own families, but also of the other children in states where the destruction of jobs is widespread.

So, the problem of job losses can't be solved by workers sending their children to college in search of jobs in the "new economy." Nor is the predicament confined to the white working-class. In fact, the effects of job losses are similar, but even worse, among African-American youth.

That's why Ananat argues that

white working class people and African-American working class people are in the same boat due to job destruction. Imagine the policies we could have if folks found common ground over that.

And, I would add, those policies need to go beyond the "active labor market policies"—such as "rigorous job training and active matching of worker skills to employer needs"—the authors, along with mainstream economists and politicians, put forward.*

And yet the myth persists. American elites and policymakers still to choose to emphasize the economic returns to education as the panacea to address socially established wealth disparities, structural barriers of racial and ethnic economic inclusion, and the negative consequences of job losses.

The question is, why?

According to Hamilton and Darity, such a view

follows from a neoliberal perspective, where the free market, as long as individual agents are properly incentivized, is supposed to be the solution to all our problems, economic or otherwise. The transcendence of Barack Obama becomes the ideal symbolism and spokesperson of this political perspective. His ascendency becomes an allegory of hard work, merit, efficiency, social mobility, freedom and fairness, individual agency, and personal responsibility. The neoliberal ideology is not limited to race. It more generally places the onus on individual actions, and more broadly leads to deficiency narratives for low achievement, but this is especially the case when considering race and other stigmatized workers. Perhaps the greatest rhetorical victory of this paradigm is convincing the masses that implicit in unfettered markets is the "American Dream"—the hope that, even if your lot in life is sub-par, with patience and individual hard work, you can turn your proverbial "rags into riches."

And so the myth of college and the American Dream is perpetuated, while the obscenely unequal distribution of wealth and the devastating effects of job losses—across the entire population, and especially with respect to ethnic and racial minorities—continue unabated.

*Policies to help "disadvantaged workers, especially African Americans, Hispanics and rural residents," also need to go beyond encouraging the Fed to keep interest-rates low. That still leaves job decisions in the hands of employers, forcing individual workers to have the freedom to chase after jobs and to send their children to college.

Adam Smith and the Invisible Hand

By Rafi Amir-ud-Din and Asad Zaman

[Editor's note: This and similar material can be found on the WEA Pedagogy Blog.]

Textbooks, like Mankiw, state that the four claims listed below are at the centre of modern economics. In a paper [Rafi Amir-ud-Din and Asad Zaman "Failures of the 'Invisible Hand'" *Forum for Social Economics* Vol. 45, Iss. 1, 2016 pp 41-60.], we aim to show that ***all four of these claims are wrong***.

1. Participants in market economies are motivated by self-interest. (**SI**) – In fact, cooperation, service, recognition and status in community, and reciprocity are very strong motivators of human behaviour.
2. Decentralized market economies work very well, and maximize the welfare of society as a whole. (**FM**: free markets). As illustrated by the Global Financial Crisis, unregulated markets lead with regularity to disasters and crises.
3. The reason for excellent functioning of decentralized market economies is that all participants are motivated by self-interest. This self-interest works better than love and kindness in terms of promoting social welfare. (**GG**: greed is good). This is absolutely false, and the opposite of the truth – love and kindness work much better at promoting social welfare.
4. The principles listed above were summarized in the concept of the "Invisible Hand" by Adam Smith. (**AS**). Adam Smith can be blamed for many wrong ideas, but this is not one of them. In fact, free market economists attribute this theory to Adam Smith to create legitimacy for their ideas.

Here is an extract from the paper regarding point (4) above. This shows the huge difference between what is attributed to Adam Smith in the name of Invisible Hand, and the actual writings of Adam Smith:

Section 6: Recent Vintage of the Invisible Hand

The main goal of this section is to show that the modern interpretation of the IH is relatively recent. The idea that Mankiw (together with other modern economists) attributes to Smith is not actually present in Smith's writings. In fact, modern writers borrow the authority of Adam Smith to provide weight to a very dubious idea of recent coinage.

We first note that modern interpretation of the "IH" is radically different from any interpretation of this concept that existed before the second half of the twentieth century. There is a growing body of literature (e.g., Grampp, 2000; Minowitz, 2004) which insists that the metaphor used by Smith was never meant to be anything more than a metaphor, and that the meanings inferred from Smith's idea of IH by the modern economists support only their own interpretation of economic policies. Kennedy (2009) shows that three leading modern economists laud the IH as the "profoundest" and "most influential" contribution of Adam Smith. Nonetheless, their interpretation of the term and its significance is not supported either by Adam Smith or by readers of Adam Smith until the late nineteenth century.

In a corpus of over a million words, the terms IH appears only twice in the economic writings of Adam Smith. It is used only once in the Wealth of Nations in very limited and narrow context. Rothschild (1994) analyses the controversy surrounding the meaning of IH and concludes that what Smith meant by this metaphor was only a "mildly ironic joke." Blaug (2007) also shows that Adam Smith cannot be blamed for these ideas. He cites other references which state that:

> *Some economists regarded the Arrow-Debreu results [on the existence of general equilibrium] and the fundamental theorems of welfare economics as the modern expression of Smith's invisible hand ... But Smith would be surprised at what is attributed to him today ... On careful reading Smith does not say that selfish behavior is praiseworthy, is bound to pay, or necessarily promotes the best interests of society ... The passage containing the invisible hand metaphor is not about general equilibrium theory: its purpose is to explain why merchants would continue to buy British products even if tariffs were removed.*

Ashraf, Camerer, and Loewenstein (2005) make a detailed analysis of Smith's pioneering work The Theory of Moral Sentiments to conclude that "For Adam Smith, a mixture of concern about fairness . . . and altruism played an essential role in market interactions, allowing trust, repeated transactions and material gains to occur." In sharp contrast to the modern economists' unwarranted understanding of the IH metaphor as a sanction for selfish behavior, Smith explains that justice is in fact only a rational behavior. Fear of retribution is likely to deter the people from committing injustice. He says: "Nature has implanted in the human breast, that consciousness of ill-desert, those terrors of merited punishment which attend upon its violation, as the great safe-guards of the association of mankind, to protect the weak, to curb the violent, and to chastise the guilty." See Smith (1759, p. ii, iii, 125). Realizing the crucial role of justice, especially in ensuring just behavior, he believes that justice is the "main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society ... must in a moment crumble to atoms." Fairness and justice have only recently attracted the attention of economists as providing justifications for many observed human behaviors in conflict with standard utility maximization theories, see Karacuka and Zaman (2012) for a brief survey.

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A one hour video of a seminar presentation on *Failures of the Invisible Hand* can be found here.

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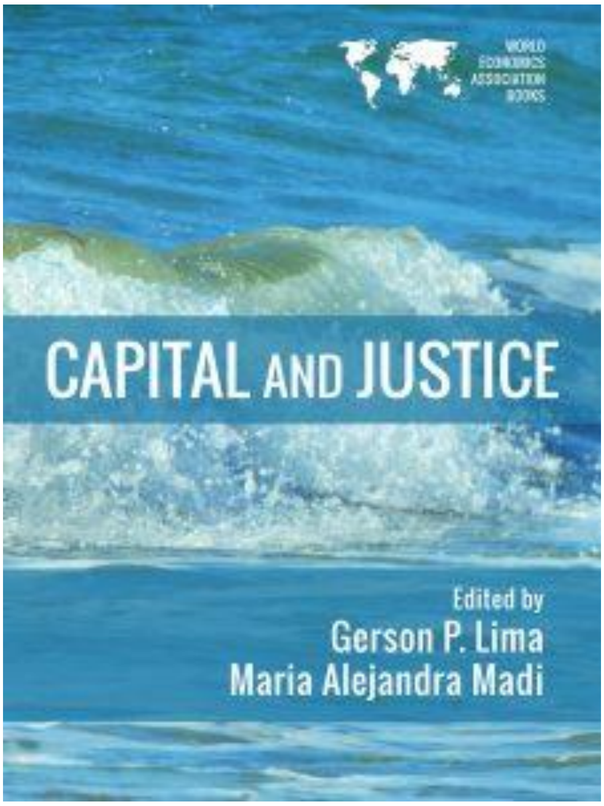
Capital and Justice



Gerson P. Lima and Maria Alejandra Madi

Published 28 June 2017 by WEA Books

The book *Capital and Justice* calls for a deep examination of current power, politics and economics in a social context where democratic institutions are being threatened. The contributions discuss the various aspects of global accumulation, production and employment from a broader perspective in order to examine their interlinkages with other economic, social, and political processes.

More details HERE

World Social and Economic Review Statement of Purpose by New Managing Editors

11/4/2017

We would like to take this opportunity to thank outgoing editor John Harvey for all the very hard work that he has put into this journal. It is deeply appreciated by all at WEA. What we hope will happen next builds on the foundation that John (and others) laid down before we (Devrim Yilmaz, Susan Feiner and Rex McKenzie) became managing editors.

We are academic economists by profession and importantly we are pluralist oriented (as opposed to mainstream) economists. We aim to encourage and promote an economics that is informed by insights from social sciences, humanities and popular cultures. In our view orthodox/mainstream economics is a narrow and closed discipline existing within the social sciences but alltogether separated and isolated from all the other disciplines (anthropology, political science, criminology, sociology, etc.). It is another step removed from the humanities particularly history and philosophy. We want to redress some of this balance, thus this journal aims to integrate understandings from other disciplines into a more coherent interdisciplinary economics rooted in the political economy traditions of the great moral philosophers.

To that end we seek to publish invited contributions from across all disciplinary fields that engage with key social and economic questions. We aim to take the journal in an interdisciplinary direction while continuing the focus on new and emerging policy issues. Reflecting this new orientation we've renamed World Economic Review – Contemporary Policy Issues—to World Social and Economic Review of Contemporary Policy Issues. Name change aside, we continue to be an open access, invited authors, peer reviewed journal.

First world problems with an aging population

There seems to be a compartmentalisation of policy issues, with some apparent contradictions, hence:

1. With an aging problem, how will we find enough workers to support all the old people?

MEANWHILE 2. With increased use of robots, where will we find jobs for all those wanting to work?

And:

1. With an aging population, how will we fund their pensions? Are they affordable?

MEANWHILE 2. Should we introduce a universal basic income?

Do we have two fundamentally different views of the future, or are we really confused?

World Economics Association Conferences, 2017

Economic Philosophy: Complexities in Economics Discussion Forum: 2nd October – 30th November, 2017

Leaders: John B. Davis and Wade Hands

THEORETICAL BACKGROUND STATEMENT

There is considerable interest in recent economics in the idea of complexity. There are also many different ideas about what complexity in economics involves, making the subject of complexity in economics itself a complex matter! Thus the plural form of this conference title – Complexities in Economics – is explicitly intended as the point of entry for a pluralist conference on economic philosophy.

Pluralism itself is often taken as a *normative conception* regarding how economics ought to be pursued. But a complexity focus in economics also entails a *descriptive conception* of pluralism – how economics and its philosophical foundations are as a matter of fact complex and diverse, as the long history of economics well demonstrates. Moreover, from an evolutionary perspective, it has also been recently argued that economics is currently in the midst of a process of change whereby specialization is causing economics to become increasingly diverse and complex, with this leading to declining opportunities for any research program in economics to become dominant in the manner of postwar, cold war neoclassicism (Colander, Holt, and Rosser, 2004; Davis, 2008; Cedrini and Fontana, 2016).

One issue this raises is how might an increasingly complex and diverse economics actually function, on the one hand, theoretically as a relatively independent discipline with policy responsibilities to society, and on the other hand, sociologically in connection with how it privileges some economists and discriminates against others. And how might these two dimensions of economics interact? Are the cognitive requirements of the discipline compatible with its social structure?

Related to this is the issue of the complex interplay between the possibly increasingly plural nature of economics and a pluralist normative orientation toward economics. Is there now a stronger case for normative pluralism in economics? If so, what are the grounds on which normative pluralism can be promoted? And, is an evolution of economics into a larger and larger number of non-communicating specializations likely to change the nature of and the case for normative pluralism?

Laying the groundwork for these issues depends on:

1. **Explaining Complexity**. Among the philosophical conceptions of what complexity involves are intricate interdependency, complex adaptive systems, random and unexpected change, feedback patterns, part-whole system relationships, simulation, nonlinear and chaotic dynamics, phase transitions, sensitive dependence on initial conditions, self-organization, computational complexity, big data, cross-level and within-level interactions, network effects, etc.

2. **Explaining How Complexity Enters into Economics**. Here we can distinguish:

    i. **How the nature and content of economics itself is complex**. Economics is complex in regard to: heterogeneous agents, upward and downward causation, the nature of complex adaptive systems and agent-based models, bounded rationality, dispersed interaction, bubble phenomena, herding behavior, trading networks, non-market interaction in relation to market interaction, post-Walrasian economics, multiple equilibria and out-of-equilibrium dynamics, radical uncertainty, reflexivity and feedback patterns, novelty and emergence, increasing returns, identity formation, open vs. closed systems, hysteresis, econophysics, artificial markets, etc.

    ii. **How economics is complex in relation to how its nature and content is approached**. Problems of complexity arise in connection with: different relationships between economists, social scientists, and the public in regard to the content and roles of economics, relations between different traditions and school of thought in economics, different methods used to introduce complexity into economics, different epistemological and ontological conceptions of complexity in economics, interdisciplinarity and economics' relations to other disciplines, the relationship between positive and normative reasoning in economics, computational limits, the relationships between induction, deduction, and abduction, problems of self-reference, historical vs. logical analysis, simulation and artificial systems, constructive mathematics, etc.

An *Economic Philosophy investigation of Complexities in Economics*, then, operates on two interconnected levels: how (i) a complex economics draws on (1) complexity theory, and then on the relationships between (i) the complex content of economics and (ii) the complexity of approaches to that content.

Clearly there are many possible ways in which such an investigation could be undertaken. For example, in terms of the relation between (i) and (ii), one might argue that either frames the other. Alternatively, one might argue that there are particular correspondences between different elements of (i) and (ii). Then one might argue that connections between (i) and (ii) frame overall relations between (1) and (2).

At the same time, there are two overarching dimensions to an Economic Philosophy approach to Complexities in Economics.

First, it combines two disciplinary domains of investigation, Economics and Philosophy, whose respective requirements and strategies influence one another.

Second, the plural emphasis on Complexit*ies* frames all of this investigation in pluralist terms, while pluralism itself possesses both normative and descriptive conceptions that have their own complex interplay.

Therefore, complexities in Economics is indeed a complex matter. Yet the subject is nonetheless potentially susceptible of clear treatment, which is the object of this Inaugural Economic Philosophy conference.

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Davis, John (2008). "The turn in recent economics and return of orthodoxy," *Cambridge Journal of Economics* 32 (3): 349–366.

Conference web page: http://economicphilosophy2017.weaconferences.net/

Please send papers with abstracts and keywords to John Davis (john.davis@mu.edu) and Wade Hands (hands@ups.edu) by August 15th 2017.

Notification of acceptance: September 15th 2017.

For manuscripts guidelines, and complete general guidelines about the WEA Online Conferences, please check:

https://www.worldeconomicsassociation.org/conferences/guidelines/

Another forthcoming WEA Conference

Monetary Policy After The Global Crisis.

How Important Are Economic (Divisia) Monetary Aggregates for Economic Policy?

Leaders: Filip Fidanoski and James Swofford

Email: weamonetarypolicy@gmail.com

Paper deadline 10th August

Discussion forum 1st September – 1st October 2017

WEA Journal *World Social and Economic Review*

International tax avoidance and evasion—Call for Papers

Globalisation has meant that multinational corporations and wealthy individuals can shift tax liabilities from high to low tax countries as standard operation. We know little about these movements but the Panama Papers gave us an insight into an opaque system that is geared exclusively to the evasion of taxes. Wealthy individuals regularly move funds to undeclared bank accounts in offshore tax havens, and companies are increasingly shifting profits through Bermuda, Luxembourg, the Cayman Islands and other such offshore jurisdictions. The best guesses suggest that there are approximately sixty secrecy jurisdictions, divided largely into three groups - European, British and American. In addition, legions of bankers, accountants and lawyers, hedge and other rentier type funds are all involved in a global industry devoted to hiding tax liabilities. Both London and New York play a major part in the tax evasion and avoidance industry-the City of London and Wall Street -function as powerful offshore tax havens, because both are actively engaged in attracting funds from all and sundry. The scope and magnitude of the industry is mind boggling. “According to some measures, over half of banking assets and liabilities are routed through secrecy jurisdictions; more than half of world trade passes (on paper) through them; virtually every major multinational company uses secrecy jurisdictions for a variety of unspecified purposes, and at least US$21 trillion of private financial assets are held in offshore structures worldwide, largely escaping taxes, criminal laws, financial regulation and disclosure.”

Tax havens are therefore at the very heart of capitalism and according to tax evasion expert Nicholas Shaxson have been instrumental in nearly every “major economic event, in every big financial crisis since the 1970s including the global financial crisis of 2008”.

WSER through this CFP encourages the submission of articles on tax evasion, tax justice, the role of offshore jurisdictions in contemporary capitalism, or any related aspect of the tax avoidance and tax evasion. Topics of interest include, but are not limited to:

Inequality; Licit and Illicit Transfers; Transfer Pricing; Money Laundering; Global Wealth Chains; Terrorism; Economic development and offshore jurisdictions.

Submissions from all disciplines are welcome. If you have an idea for a paper, please send us an email sketching your thoughts. We will let you know very quickly if you are on track for producing a piece (from 2000 to 5000 words) suitable for publication in WSER.

Important Dates

July 20, 2017 – Proposal deadline

October 15, 2017 – Submission deadline

December 30, 2017 – Publication target date

Thank you for your consideration,

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