

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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Interview with Angelo Fusari

This year economist Angelo Fusari has published a book addressing issues of methodology in the social sciences. A book on related matters, co-authored with Hasse Ekstedt, was published in 2010. Here in an interview with Stuart Birks he briefly outlines his position.



Angelo Fusari in thoughtful mood

1) Why do you think that both mainstream and heterodox economics fail to give clear explanations of social phenomena?

It is not possible to provide a brief yet exhaustive answer to this question. I limit myself here to a consideration, sometimes provocative, of some basic aspects of social reality that clearly contradict both the substance and foundations of current methodologies and, hence, highlight the implications of the discrepancies between methodology and reality. A complete answer can be found in my book on 'Methodological Misconceptions'.

Mainstream economics is founded on two well defined methodological approaches that have been formulated and used with great success by other branches of knowledge: the observational-experimental method of the natural sciences and the method of abstract rationality of the logical-formal sciences. The observational-experimental method requires the repetitiveness of the phenomena under consideration or, at most, an extremely slow evolution, as, for instance, occurs in the biological world, which is helpfully interpreted by Darwinian evolutionism. For its part, the method of abstract rationality disdains any stringent relation with de facto reality and concentrates on the strength and purity of logical-sense. The first method contradicts the substance of social reality, which, being the result of the constructive and organizational activity of humanity differs totally from the natural processes with which humans simply interact; while the second method ignores basic aspects of reality.

For sure, the observational method is appropriate and even fecund with reference to quasi-stationary and repetitive societies. But once mankind, the creator of society, begins to unfold his creative and innovative potential, thereby impressing upon social events a growing non-repetitiveness, the observational-experimental method loses reliability. Mainstream economics defends itself from the failures of the observational procedure by calling for help from the method of abstract rationality, which latter ignores at least the most embarrassing contents of reality notwithstanding their importance. The result of this great abstraction is the formulation of theoretical approaches that are very general in appearance but strongly misleading in substance. The Walrasian model of general equilibrium provides the main example: on the wings of an absurd degree of abstraction, such a model prided itself on providing a representation of both collectivism and the market economy, but in reality it teaches almost nothing concerning the economic

process. The observational and abstract rationality methods are, in particular, both averse to that most typical and substantial element of economic dynamics, that is, innovation and radical uncertainty, a primary expression of non-repetitiveness. But mainstream carries out some surreptitious and fictitious inclusions of these important elements by the use of the Knightian treatment of uncertainty and by considering innovation as just an exogenous variable, as well as some soft inclusions of the Keynesian

principle of effective demand and other fictitious extensions into reality.

The growing acceleration of economic dynamics has generated increasing evidence of the ineffectiveness of these methods and palliatives and, hence, a growing scientific dissent from them. This is well expressed by heterodox economics. Such dissent has thrown up illuminating criticisms and a plurality of alternative proposals and formulations that mark a constructive and, after all, inevitable point in the search for some more appropriate method for the study of social reality. Unfortunately, hitherto this plurality of proposals has not appeared able to open the road to an alternative and more appropriate method. Heterodox scientists are unable to interact with one another and achieve reciprocal understanding, which deprives their proposals of fecundating power. What is worse, there is a widespread insistence by heterodox scholars as to the importance and value of pluralism intended as a plurality of methodological approaches. This discourages the search for a convergence towards a more appropriate and third methodology flanking the two orthodox methods of the natural and the logical-formal sciences, such convergence being considered as an attempt at pluralism. But pluralism, if it is to work, requires the possibility of reciprocal understanding among students and, hence, some common methodological foundation; after all, this is a prerequisite for the cumulative growth of knowledge.

The current heterodox Tower of Babel provides a semblance of theoretical advance to the surreptitious inclusion of various aspects of reality by the mainstream. My analysis makes an effort to provide a method (procedure and rules) appropriate to social reality, just as the logical-formal sciences and natural sciences have been able to achieve in their fields.

2) You state, in your book: "the simple assumption that alternative choices or events were possible makes the method based on strict observation logically indefensible". What does this say about quantitative economic analyses? What would you use in their place?

It is quite evident that the possibility of alternative events, both in the past and in the future, makes meaningless and misleading the building of explanatory models specified and verified through the observation of what happens and happened. Therefore, the construc-

tion of some alternative methodological tool is required. It seems that such a construction should be based on the combination of two perspectives: the organizational and the observational views, doing and being. In sum, what is required is a method able to teach the way of organizing society based on realistic assumptions, primarily by making evident those crucial and durable elements of current reality upon which a variety of organizational choices and innovations may be grafted.

Such an analytical approach does not deny the possibility of quantitative analyses. Mathematical models can be specified that make endogenous the most significant aspects of modern dynamic societies (primarily, innovation and radical uncertainty and the implied institutions). These models can be used to carry out simulations. A different question concerns the econometric verification and estimation of models. This requires the repetitive behaviour of the considered variables, which is denied by the crucial role of innovation and the implied radical uncertainty. However, some econometric estimation can be performed with reference to a high level of aggregation, as well as with reference to variables characterized by high permanence and necessity over time. Even some prediction may be performed on the behaviour of these well defined and durable variables.

3) It is not clear to me the role pertaining to the positive and normative aspects in the methodological tool you suggest.

The current distinction between positive and normative is inconsistent with the method I propose. In fact, the positive side supposes the possibility of deriving laws of motion through observation, using them in order to derive the effects of changes in instrumental variables and to formulate the prescriptions of political economy. The current distinction between economics and political economy is based on such a supposition, which the latter does not require. But we saw that, with regard to society, it is impossible to discover laws of motion, as the natural sciences do, since such discovery presupposes the repetitiveness of events. I substitute, in place of the distinction of positive and normative, the distinction between 'necessity' and 'choice-possibility-creativity' in the organization, management and interpretation of social processes. The two distinctions do not overlap. The normative side can only be referred to as choice-possibility. But my book shows that some important ethical values and institutions that are currently attributed to the normative side constitute, on the contrary, 'necessities' of modern dynamic economies.

4) You refer to 'methodological cages'. What do you mean by this?

Such cages are simply an effect of the methodological confusion afflicting the social sciences, that is, of the variety of methodological approaches that prevent mutual understanding and reasoned communication between the representatives of the different methodological traditions, such as orthodox and heterodox positions and the various branches of heterodoxy. As I have said, these cages constitute a real obstacle to scientific progress and

make impossible a fecund pluralism. The only methodological distinction that may be considered appropriate and fecund is that between the methods of the natural sciences, the logical-formal sciences and the social sciences, a distinction imposed by the great difference between natural and social reality and by the fact that the logical-formal sciences are merely the product of an appeal to the rational potential of man. The scientific drama of our age arises from the absence of a general method appropriate to the basic features of social reality.

5) You say that 'the best contributions to social knowledge have been *ad hoc* studies'. Why is this? Can you give some examples?

This is another implication of the methodological bewilderment afflicting the social sciences. The most fecund studies on society are those that exist outside the various methodological standards and cages established by the tormented intellectual market for social knowledge; that is, those studies that deepen with practical sense some relevant, even if often very partial, elements of reality: for instance, many studies on the firm, business cycles and management, as well as many sociological inquiries. After all, in the present methodological confusion it is not possible to do more.

6) A last question concerns ethical values. You maintain that basic ethical values can be scientifically proved and hence you oppose what you call 'ethical objectivism' to ethical absolutism and the dominating ethical relativism. Can you better clarify the question?

Two opposite and irreconcilable positions dominate the scene on ethics: cultural absolutism – a dogmatism that pretends to found ethics on the precepts of faith; and cultural relativism, which strongly denies objectivity (and scientific substance) to values and is defended as a conquest of civilization in the face of ethical absolutism. My meditation on method shows the erroneousness of such ethical dualism, providing proof that fundamental values can be scientifically explained. Afterwards, I underline, by way of a number of examples that concern the various branches of social thought, the practical and intellectual importance of such scientific development. Yes, I oppose 'cultural objectivism' to the dualism of cultural absolutism and cultural relativism. Cultural relativism is mistaken in regard to fundamental values. I insist on this assertion, which I consider of crucial importance, notwithstanding the bitter opposition from very influential intellectual circles that my stance is likely to garner.

I am conscious that a good many of my statements in this interview sound like assertions supported simply by good sense; unfortunately, it is not possible to offer more in the space of a short interview. My book on 'Methodological Misconceptions in the Social Sciences' provides complete demonstrations of what I have said here, and attempts to trace the bases of a method appropriate to the treatment of social reality, a method that should finally flank the two well-defined methodologies (concerning the natural and the logical-formal sciences) that has allowed such great (continued over...)

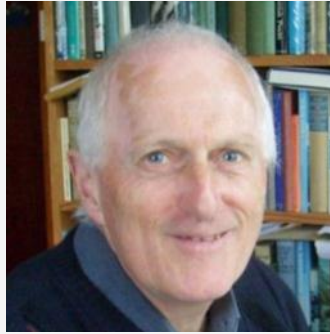
progress: an alarming progress, indeed, if not complemented by a method of social science able to understand and manage the effects of growing innovation and social change.

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Interview with John E King

In April 2014 a festschrift in the form of a conference was held in Melbourne for Professor John E King, marking his retirement from full time duties. His principal research interests are in the history of heterodox economic thought, with particular reference to Marxian political economy and Post Keynesian economics. Here he answers some questions for the WEA Newsletter.



Classical Political Economy (Macmillan, second edition, 1978, pp. 1-2: 'I do not think that, even in the purely analytical field, our knowledge is so far advanced to justify us in writing off as superseded the propositions of all but our immediate contemporaries; and, in the applied field, I do not think we can hope to understand the problems and policies of our own day if we do not know the problems and policies out of which they grew. I suspect

1. How would you briefly state your perspective on economics and the history of economic thought?

There's a strong case for pluralism in economics, or rather several strong cases. Like the late Kurt Rothschild, I think that social reality is so complex, and so diverse in time and space, that it's inherently unlikely that any one theoretical system can satisfactorily explain everything. There are also the 'three E's': the evolutionary, ethical and esthetic (pardon the US spelling) cases for pluralism. The evolutionary case (set out e.g. by Geoff Hodgson) is that progress requires evolution, evolution requires selection and selection requires diversity, or there's nothing to select from.

The ethical case (set out e.g. by the sociologist Marion Fourcade) is rather obvious: economists are supposed to believe in the competitive market, and so should allow one to operate in the case of economic ideas. The esthetic (see e.g. Benjamin Cohen's new book on *International Political Economy*) is that diversity is much more interesting than uniformity (if you doubt this, compare a 2014 copy of the *AER* with a 1944 or 1954 issue).

On the ethical case for pluralism, I suppose it could be argued by mainstream economists that they are not excluding alternatives: it is just that the alternatives are not viable. I'm not convinced. It is not clear to me that the optimal degree of product differentiation in the market for ideas is zero, or that the barriers to entry that have been erected by the mainstream are at all easy to justify. But the market metaphor does have its limitations.

This all links up with your question about the history of economic thought. One strong case for teaching HET was set out by the arch-Establishment figure Lionel Robbins many years ago (in a reference that I have lost, and would dearly like to recover!): the history of ideas demonstrates the diversity that there has always been among economists (until quite recently) on almost all issues of theory and policy. There is a slightly less punchy statement in his *Theory of Economic Policy in English*

that damage has been done, not merely to historical and speculative culture, but also to our practical insight, by this indifference to our intellectual past - this provincialism in time - which has become so characteristic of our particular branch of social studies'.

This is a sufficient condition for being interested in HET and continuing to teach it to students; it is not a necessary condition. The history of ideas is fascinating in its own right, irrespective of the consequences.

Support for pluralism does NOT mean (of course) that I have no views favouring some ideas/schools over others. I've always been interested in Marxian political economy and (increasingly in the last quarter of a century) in Post Keynesian macroeconomics, especially its Kaleckian variant(s). I see Kalecki as a bridge between Marx and Keynes (which does not mean that he is exempt from criticism, or from the need to be brought and kept up to date).

2. How does this compare to the mainstream?

As Robbins noted, with regret, the mainstream now takes a rather condescending attitude to HET, when it considers it at all, so much so that some people have argued that historians of economic thought should move out of economics altogether and work in departments of intellectual history or the history and philosophy of science. (A very bad idea, I think).

The mainstream is also hostile to pluralism as a principle, and to the discussion of any alternative(s) to the mainstream as a rule of practice. This was not always so, as the case of Lionel Robbins suggests. In fact my education in economics (Oxford PPE, 1964-1967) was distinctly pluralist. My college tutor was the institutionalist labour economist, John Corina, and I studied economic history with the classical liberal Max Hartwell (member and later official historian of the Mont Pèlerin Society) and development economics with the undogmatic Marxist Bob Sutcliffe. My first boss at Lancaster University was the Marshallian price theorist Philip Andrews (who took seri-

ously Marshall's injunction to 'burn the mathematics'), and I have vague memories of a seminar there, c. 1970, given by George Shackle, another eminent and deep thinker who would struggle to get a lecturer's job in an economics department today. The change in the mainstream has come about within living memory, at least outside the US, where it all happened rather earlier. I'm still trying to work out why.

3. So you think that recent developments in economics have arisen due to increasing influence of US mainstream economists?

I'm not at all sure. There is a very interesting question about the direction of causation. Americanisation might be interpreted as a consequence of the increasing influence of 'scientism' and 'economics imperialism' in Europe and other parts of the world, more than as a cause. There is an additional complication, since European theorists made a significant contribution to the transformation of US economics in the crucial period from 1930 (when von Neumann arrived in America) to 1950 (when Debreu made his permanent move to Berkeley).

4. From a historical perspective, might the increased economic activity in Asia result in some refocusing of perspectives and priorities in academic economics?

That's another very interesting question. From what little I know about economics in India, I suspect that the reverse has been true, so that the prospect of a genuinely indigenous economics growing up there is more remote now than it was in the 1950s. That's certainly true of Latin America, where structuralist theories of development were overwhelmed after 1980 and soon buried by the neoliberal avalanche from the north. The big unknown, of course, is China. 'Capitalism with Chinese characteristics' is clearly very different in some ways from Western capitalism, but I simply don't know whether there is also a distinctively Chinese approach to economics. Perhaps the Chinese have absorbed American ideas, along with the cars, mobile phones and the consumer brands. 'Soft power' is very hard to resist.

5. Do you see Marxist economics being able to contribute to current understanding?

Yes in the broad, political economy, sense: capitalism is a class society where production is motivated by profit, which makes it unstable, inegalitarian and exploitative (of nature as well as people). It is also inescapably monetary, since profit is the difference between two sums of money. Thus it cannot be represented in terms of barter, even as a first approximation, nor as a system in which classless consumers call the tune and firms act as their agents rather than their employers.

No in the narrow, economic theory, sense: there are serious logical and empirical issues with the (quantitative) labour theory of value and with Marx's treatment of the distinction between productive and unproductive labour. The latter makes any Marxian analysis of financialisation very difficult (actually RE-financialisation, since there was a 40-year period of DE-financialisation after 1929). I'm coming more and more

to think that financialisation is the crucial issue that we need to face, and it's not clear to me that *Capital* will be a very great help in coming to terms with it.

Actually Marx himself would have been amused by attempts to apply the economic theory of 1867 to capitalism in 2014, having asserted the principle of historical and social specificity (e.g. the distinction between capitalism and simple commodity production – not to mention that between the 'manufacturing' and 'modern industry' stages of capitalism itself). One of Rothschild's two arguments for pluralism comes from Marx (see above).

6. As you say, Marx was writing for another time. Schools of thought can evolve. What might a more contemporary Marxist economics look like?

The last course that I taught before I retired last year was a second-year option in Globalisation. It was dropped on me at short notice and I had to improvise. I used as my text Andrew Glyn's *Capitalism Unleashed* (Oxford University Press, 2006), and it turned out to be a very good choice. Like his former co-author Bob Sutcliffe, Glyn was a non-dogmatic and unsectarian Marxist, and his book emphasises precisely those issues of class power, politics and financialisation that I think are the really important issues for Marxian economists today. Sadly he died in 2007, just before the onset of the Global Financial Crisis. It would have been good to read an updated second edition of his book, dealing in detail with the causes of the crisis and its likely long-term consequences. More dogmatic Marxists would probably dismiss Glyn as a hopeless empiricist. I think that his open-ended, pluralist version of Marxism is the only way to go.

7. More generally, you think that a more pluralist approach might gain traction? What factors constrain and support such a development?

I wish I knew! There is an irony here: if the policy implications of mainstream macroeconomics had been followed in 2008 there would have been a massive global depression, and it's hard to imagine mainstream economics maintaining credibility if GDP in the US had fallen by 30%, as it did in 1929-1933. Instead, governments broke all the rules, the 'Great Recession' was relatively mild (outside the European PIIGS), and the New Neoclassical Synthesis is still taught with a straight face in Ivy League economics departments, and further down the food chain. There are some very welcome signs of student dissatisfaction, but these have been seen before (as in the Post-Autistic Economics movement of the first couple of years of the new millennium) and have soon faded away.

There are big vested interests at stake here, involving the influence of the 'money power' (to quote Robert Skidelsky) from outside the profession, and all the sunk intellectual costs of those inside the profession, which on the basis of their own theories should not count, but obviously do. So I am a pessimist, of the intellect and (to a lesser extent) also of the will. Not entirely: the WEA is a glimmer of light in a very dark ideological world.

The Sovereign Money Initiative in Switzerland

By [Mark Joób](#)

Mark Joób, PhD, is Professor at the West Hungarian University, Faculty of Economics and Researcher at the Institute for Business Ethics, University of St. Gallen, Switzerland. He is member of the managing committee of the Swiss Association for Monetary Modernization (MoMo).

The Swiss Association for Monetary Modernization wants to solve the most severe malfunctions of the present money system by a fundamental reform. On 3rd June the association officially launched the Sovereign Money Initiative. The aim is to give a governmental monetary authority the exclusive power to create money, both cash and current account holdings. Commercial banks would be prohibited from creating account money and restricted to give loans from money they have previously borrowed from customers.

Now, which are the malfunctions of the present monetary system?

1. Money is created as debt. Today, money comes into existence by debt creation when commercial banks borrow from central banks and when governments, producers or consumers borrow from commercial banks. Thus, the money supply of the economy can only be maintained if the private or public economic actors get into debt. Economic growth requires a proportionate increase in the money supply in order to avoid deflation that would paralyze business, but an increase in the quantity of money involves a simultaneous increase in debt. This way, economic actors run into danger of excessive indebtedness and bankruptcy. It is not necessary to say that overindebtedness causes serious problems to societies and individuals in the face of the ongoing debt crisis.

2. The money supply is under private control. Only a small fraction of the money circulating in public has been created by central banks. Central banks issue coins and banknotes which in most countries account for just between 5 % and 15 % of the money supply. The rest is created by commercial banks in an electronic form as account money when granting loans to customers or buying securities and goods. Therefore, commercial banks *de facto* control the money supply. Commercial banks principally bear the credit risk for the loans they grant, which should induce them to carefully examine the creditworthiness of their customers. However, commercial banks decide which customers are granted loans and which investments are made according to their interest in maximizing their own profits. Whether an investment is socially desirable is not the decisive criterion for commercial banks. This way, investments serving the common good but not being profitable enough are not supported by the banking system and have to be financed by government spending that depends on tax revenues and public debt creation. Instead of financing long-term investments in the interest of society as a whole, commercial banks with their credit business support short-term financial speculation and over the last two decades have actually established a gigantic global casino beyond any public control.

3. Bank deposits are not secure. Bank deposits refer to

account money which in contrast to cash is not legal tender although it is handled as if it were legal tender. Account money is a substitute for money, just a promise from the bank to disburse the corresponding amount of money in legal tender if requested by the customer. In the present fractional reserve banking system, usually only a very small proportion of account money is backed by legal tender. Banks hold only a few percent of their deposits as cash and reserves at the central bank. That is the reason why banks are reliant on the trust of their customers. In the case of a bank run, when too many customers demand cash at the same time, they would run out of cash and such a shortage of liquidity can lead to sudden bankruptcy. Hence deposit insurance systems have been established to avoid the loss of bank deposits. In the case of chain reactions and large-scale bankruptcy as in 2008, however, government bailouts of commercial banks may be necessary, eventually with the assistance of the central bank as lender of last resort.

4. The money supply is pro-cyclical. Commercial banks grant loans by creating account money in order to maximize their interest revenues. The more money they issue, the higher their profits – as long as the debtors are able to pay. In times of economic growth, banks most willingly grant loans so as to profit from the boom, while in times of economic decline they restrict granting of credit in order to reduce their risks. This is how commercial banks induce an oversupply of money in booms and an undersupply of money in recessions, thus amplifying business cycles as well as financial market fluctuations and creating asset bubbles in real estate and commodities. Such asset bubbles may cause heavy damage to society and to the banking system itself when they burst. Again, the 2008 mortgage-triggered banking crisis after the burst of the US real estate bubble is the most illustrative example.

5. The money supply fosters inflation. Besides its pro-cyclical character in the short term, in the long term the money creation of commercial banks induces an oversupply of money that leads to consumer price inflation as well as asset price inflation. An oversupply of money arises if the increase in the quantity of the money in circulation exceeds the growth of the production of goods and services. The long-term oversupply of money results not only from traditional granting of credit to governments, corporations and individuals but also from credit-leveraged financial speculation of hedge funds and investment banks. Due to inflation, consumers usually face an annual loss of purchasing power, which means that they have to increase their nominal income in order to maintain their level of consumption. Since the ability to gain compensation for the loss of purchasing power by increasing one's nominal income varies among individuals,



inflation causes a redistribution of purchasing power to the disadvantage of those individuals who are not in the position to effectively advocate for their own interests.

6. The privilege of creating money is a subsidy to the banking sector. Since money is debt, it carries interest. Therefore, interest has to be paid on all the money in circulation and virtually nobody can escape paying interest. Interest is primarily paid by customers who take loans from commercial banks and thereby ensure the money supply. Secondly, everybody who pays taxes and buys goods and services makes a contribution to the interest payment of the original borrower, because taxes have to be raised partly in order to finance the interest payments on sovereign debt. Furthermore, corporations and individuals providing goods and services must include the costs of their loans in their prices. This way, by using money, society pays an enormous subsidy to the commercial banks, though the banks pass on a part of this subsidy to their customers as interest payments on deposits. Interest is a subsidy to the banks because the account money they create is handled as legal tender. The magnitude of the subsidy society pays to the banks is reflected in the disproportionately high salaries and premiums of bankers as well as in the disproportionately large banking sector.

These are the negative monetary effects the Swiss Sovereign Money Initiative (“Vollgeld-Initiative”) wants to alleviate. On June 3rd the supporters of the initiative officially started to collect signatures in order to launch a referendum on the establishment of a sovereign money system in Switzerland. They want electronic money to be declared legal tender and remain in the possession of the bank customers by changing the Swiss constitution. The initiative also wants the central bank to have the exclusive power to issue electronic money as it has the monopoly over the issuance of cash today. This way the monetary system could serve democracy and the common good with the possibility of reducing national debt and financing the social safety net.

In a sovereign money system the unnecessarily complicated two-level banking system would be replaced by a single-level system, in which money is no longer backed by reserves, but money itself is the reserve. This way, a transparent, well ordered monetary framework could be established instead of the existing bad framework that governments attempt to straighten out with evermore complex regulation consisting of the fractional reserve system, deposit insurance and equity rules (Basel I-III).

The sovereign money concept aims to establish a sovereign public authority with total control over the money supply, both cash and electronic money on current account holdings. This monetary authority would represent a fourth separate and largely independent section of the state besides the legislature, the executive and the judiciary. The monetary authority would be bound by law to expand the money supply according to the growth potential of the real economy. The money created by the monetary authority would be transferred to the Treasury and would come into circulation by public spending; thus, it would benefit the public purse and contribute to the reduction of national debt.

Public revenue would be especially high in the moment

of transition to the sovereign money system when the money owed to commercial banks becomes owed to the monetary authority, which would significantly reduce public indebtedness. In the transition period, commercial banks would be given a bridging loan from the monetary authority so as to avoid a credit crunch.

A great advantage of the sovereign money system is that money would be issued debt-free by the monetary authority and would therefore not carry interest – unless, in a following step after being created, it is lent by its owner as an investment, for example to a commercial bank. Debt-free money issuance would considerably alleviate the current social and ecological problems arising from interest, such as forced economic growth and redistribution in favour of capital. Commercial banks, on the other hand, would not be allowed to create electronic money any more. They would become what they are supposed to be today: financial intermediaries which can only grant loans from money that they have previously collected, i.e. borrowed from customers or earned by income.

The sovereign money system faces some problems. The goal of establishing public control over money creation could be thwarted by the emergence of new financial instruments, especially bank-created securities, taking over the function of money. This is a serious danger to a sovereign money system, in particular with regard to the inter-bank market. Financial regulations would be needed to prevent the emergence of near monies which would impair the monetary authority’s control over the money supply, for instance by prescribing a minimal holding period for financial instruments.

Another problem that needs to be resolved in a sovereign money system is how to secure the independence of the monetary authority. Since governments generally seek to increase public revenue in order to enlarge their scope of action, they would be tempted to put pressure on the monetary authority to issue more money than the potential of the real economy and the principle of sustainable development in a given situation allow. In the same way as the independence of the judiciary is guaranteed today, the monetary authority’s independence from short-sighted political interests could be secured by an adequate institutional arrangement, which simultaneously warranted transparency in monetary decision-making and democratic accountability of those who rule the monetary system. The leaders of the monetary authority could be elected by the Parliament. A central aim of the sovereign money concept, after all, is to restore democratic control over the monetary system.

See also:

<http://www.currentconcerns.ch/index.php?id=1378>

<http://www.currentconcerns.ch/index.php?id=1474>

And web sites

<http://www.vollgeld-initiative.ch/english/>

<http://www.monetative.de/> (online translation available via Google [here](#))

<http://www.monetative.ch/> (online translation available via Google [here](#))

YSI Workshop Antalya @ Turkish Economic Association Conference

The Institute for New Economic Thinking's Young Scholars Initiative (YSI) will host a PhD student workshop in Antalya, Turkey, on October 16-17, 2014. The workshop is being organized in partnership with the Turkish Economic Association (TEA), whose 4th International Conference on Economics will take place on October 18-20. Two mini courses will be offered: **Geoffrey M. Hodgson** will discuss key works and authors that inspired the evolutionary approach in economics, and **Mushtaq H. Khan** will lecture on the challenges of developing countries. PhD students will have the opportunity to present their research. More info and registration at <http://ineteconomics.org/ysi/events/workshop-antalya>

Frederic S. Lee Heterodox Economics Scholarship Fund

A Call for Contributions June 10, 2014

Dear Friends, Colleagues, and Heterodox Economists,

Fred Lee has been a driving force of heterodox economics movements over the past 30 years. He played a major role in establishing the Association for Heterodox Economics, founded and edited the *Heterodox Economics Newsletter*, edited the *American Journal of Economics and Sociology*, has been actively involved in heterodox associations such as AFEE, AFIT, AHE, ASE, EAEPE, HES, ICAPE, URPE, and so on. His activities and contributions are truly community-oriented and self-sacrificing. Above all, Fred has always been concerned about students since they will be the future of heterodox economics.

As some of you already know, Fred will soon retire due to an unexpected illness. In the face of uncertain life conditions, Fred and his wife, Ruth, have recently established the Heterodox Economics Scholarship Fund, which is designed to financially support doctoral heterodox economics students. The Scholarship is open to all doctoral students studying in a heterodox economics program, although currently preference is given to UMKC doctoral students due to the limited amount of funds.

We are sending out this call for contributions with the hope that you share Fred's "good-will" and make a contribution to this Fund so that more heterodox economics students can complete their studies successfully. Moreover, if you believe you are indebted to Fred for his many contributions, contribute to the **Frederic S. Lee Heterodox Economics Scholarship Fund** and support students.

To learn more about the Fund, visit here:

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Sincerely yours,

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IDEAs, International Development Economics Associates...

...is committed to building a pluralistic network of committed researchers, teachers and other economists interested in advancing progressive heterodox approaches to critically analysing and addressing the problems of economic development processes.

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Two Latin American initiatives

Ecuador and FLOK

“The traditional capitalist value model is of course well known, but the emergence of a knowledge society has already changed these dynamics to a fundamental extent.”

Ecuador calls for an open commons-based knowledge society. Here are two extracts from [a description of the project](#):

“The FLOK Society is a joint research effort by the Coordinating Ministry of Knowledge and Human Talent, the SENESCYT (Secretaría Nacional de Educación Superior, Ciencia, Tecnología e Innovación) and the IAEN (Instituto de Altos Estudios del Estado) to develop transition and policy proposals to achieve such an open commons-based knowledge society.

FLOK refers to:

- **Free**, meaning freedom to use, distribute and modify knowledge in universally available common pools;
- **Libre** stresses that it concerns free as in freedom, not as in 'gratis';
- **Open** refers to the ability of all citizens to access, contribute to and use this common resource.

A **f**ree, **l**ibre and **o**pen **k**nowledge society therefore essentially means organizing every sector of society, to the maximum degree possible, into open knowledge commons, i.e. the availability of common pools of knowledge, code and design that are acceptable to all citizens and market entities, to create dynamic and innovative societies and economies, where knowledge is available without discrimination to all who need it to develop their civic and economic activities.”

And:

“...we distinguish three different models, which includes the post-capitalist model of the social knowledge economy. We define cognitive capitalism generically as that model of capitalism where the ownership and control of information flows is the key factor for the extraction of value. [The three models are:]

'Classic' Cognitive Capitalism based on IP extraction...
Netarchical Capitalism based on the control of networked platforms...
a mature 'civic' peer-to-peer economy”

You can read the source document [here](#).

For further reading:

"Transitioning to a Commons-Based Society":
http://en.wiki.floksociety.org/w/Research_Plan

Brazil's

Bolsa Família Program / Family Grant Program (PBF)

Brazil has been implementing its Bolsa Familia Program for more than a decade. It has generated international interest, as described [here](#). Hence:

“as Brazil tackles second-generation questions about how to continue improving the performance of social assistance programs and expand opportunities for the poor, experiences from both local government innovation and programs in other countries can be an important guide.

With a view to support systematic learning and innovation regarding implementation challenges in such programs, the Government of Brazil, IPC-IG and the World Bank have agreed to establish a joint initiative focused on learning from the implementation of and innovations in poverty reduction programs in Brazil and sharing lessons from Brazil's experience with the rest of the world. Thus was born the Brazil Learning Initiative for a [World without Poverty \(WWP\)](#).”

The Bolsa Familia Program is described in a document at: https://www.wwp.org.br/sites/default/files/ficha_wwp_pbf_english.pdf

In particular:

“The Bolsa Família Program operates in three dimensions, which contribute pivotally to achieving its main goal: overcoming the reproductive cycle of poverty in Brazilian families. For each dimension, there is a coordinated action:

- 1st: Promote immediate poverty relief through direct cash transfers to families;
- 2nd: Strengthen the exercise of basic social rights in the areas of healthcare, education and social assistance, through the fulfillment of conditionalities, which helps families overcome the inter-generational poverty cycle;
- 3rd: Promote opportunities for the development of families, through actions that promote the overcoming of vulnerability and poverty by PBF beneficiaries.”

At the end of last year [Jonathan Watts of the Guardian wrote](#):

“It has been 10 years since Brazil's former president [Luiz Inácio Lula da Silva](#) made *bolsa familia* a central pillar of the country's social welfare strategy. In the years since, similar poverty relief projects have spread across the globe. The pioneering programme is now arguably Brazil's most successful export, though the pros and cons of such a targeted and conditional approach remain fiercely debated.”

Inspecting the unlikely success of *Capital in the 21st century* By [John Weeks](#)

Against all expectations an economics book became a best seller this year. I illustrate this unlikely occurrence with a true story. One day in London I hailed a taxi near the Houses of Parliament (the workers of the underground system were on strike). I mentioned to the driver that I taught economics at the University of London before retiring several years ago. The driver asked me, have you read this book by a Frenchman named Piketty?

A London taxi driver discussing an economics book 578 pages long (text only) with countless graphics and even a bit of algebra qualifies the book as a "phenomenon" by the dictionary definition, "a fact or situation that is observed to exist or happen, especially one whose cause or explanation is in question". Very much in question the cause is. I am in the process of writing a review of these 578 pages (plus the occasional excursion into a footnote). At this point I limit myself to speculating over why it has swept all before it, especially since it is certain to be a book that many people buy and almost no one reads.

We find many reviews of *Capitalism in the 21st Century* (which I shorten to C21C), most from progressives, soft to hard left. The inequality deniers have yet to launch a frontal assault, though a recent [blog entry for the Financial Times by Chris Giles](#) is a shot from that direction (see [Piketty's reply](#)). Prominent UK journalist Paul Mason succinctly dismisses the attempted hatchet job ([here](#)).

I think that the two best commentaries from progressives are by [Tom Palley](#) and [Jeff Faux](#). The latter is important for its discussion of the consequences of extreme inequality, following on from [Faux's latest book](#) that is an excellent treatment of growing inequality and deindustrialization in the United States. Palley's raises the extremely important question of how progressives should respond to the phenomenally successful C21C given that its methodology, to the extent that it has one, is quite mainstream. Palley concludes that on balance we should treat C21C as part of the progressive struggle against inequality and its causes.

Further to the left reviews have been less flattering, ranging from damning with faint praise to derisive. [David Harvey](#) finds "much that is valuable" in C21C, but assesses its remedies for inequality as "naïve if not utopian", which is an interesting comment from someone whose recent book includes in the title the phrase "the End of Capitalism". A repeated comment in commentaries by Marxists is that Piketty is *not* a Marxist, which is rather like complaining that the Pope is not an atheist.

Related to the "he's no Marxist" criticism are objections to the title, which some view as pretentious, perhaps implying that it may be a latter day *Das Capital* (see [Harvey](#)). If you have not seen the book, when you do you will find the word "capital" in very large print on the cover and "in the Twenty-first Century" very small. The best interpretation of the cover is that it is

pretentious. This is not a criticism that progressives should stress given our tendency to do likewise (I plead guilty with mine).

Because I seem to be a much slower reader than others, my review lies on the horizon. This does not undermine speculation as to why C21C threatens to break sales records for an economics volume that is not a textbook, an outcome that leaves me overtly envious. If we should believe the rumours about sales, I would be extremely pleased if my new book, *Economics of the 1%* reached a fraction (very small fraction) of C21C. There can be no doubt that the success came as a surprise to both author and publisher. The last Harvard University Press book to reach five figures in sales was John Rawls' *Theory of Justice*, some forty years ago (1971, [downloadable here](#)).

The standard explanation offered for C21C success is that it represents an idea whose time had come. Paul Krugman is especially keen on this explanation. He believes that C21C will touch off or strengthen the movement to constrain inequality in the United States and elsewhere. I fear that this optimism represents, as Samuel Johnson allegedly said of second marriages, "the triumph of hope over experience" (attributed to Johnson by Boswell).

After calling the timing of C21C "near-perfect", Palley weakens this explanation by pointing out that, at least in the United States, we can find many books that document the rise of inequality, including at least two by James Galbraith than are considerably more readable than C21C ([listed here](#)). It should also be noted that an important part of C21C derives from an article that Piketty wrote with Emmanuel Saez (who, somewhat ungraciously, C21C relegates to footnotes except for two passing mentions in the text). I show their graph below.

The "its time had come" explanation suffers from the problem of accounting for one thing we cannot explain (success of C21C) by something else we cannot explain (arrival of a propitious moment). In the United States income and wealth inequality have increased continuously for three decades, so why did the magic moment come in January 2014? A variant of the "perfect moment" explanation is the suggestion that C21C took off as a result of its endorsement by Krugman. This would convince me if other books endorsed by Krugman had reached phenomenal sales levels, and I can think of none (see for example his review last year of three books on austerity none of which to my knowledge hit the Big Time).

I think that the C21C phenomenon results from the combination of growing concern in North America and Western Europe about the impact of income and wealth inequality (even from the political right), the broad consensus in the media for austerity policies, and Piketty's tactics of presentation. We frequently encounter media criticism and even outrage at the grotesquely large bonuses of bankers, excessive corporate profits and the

extravagant life styles of the super-rich.

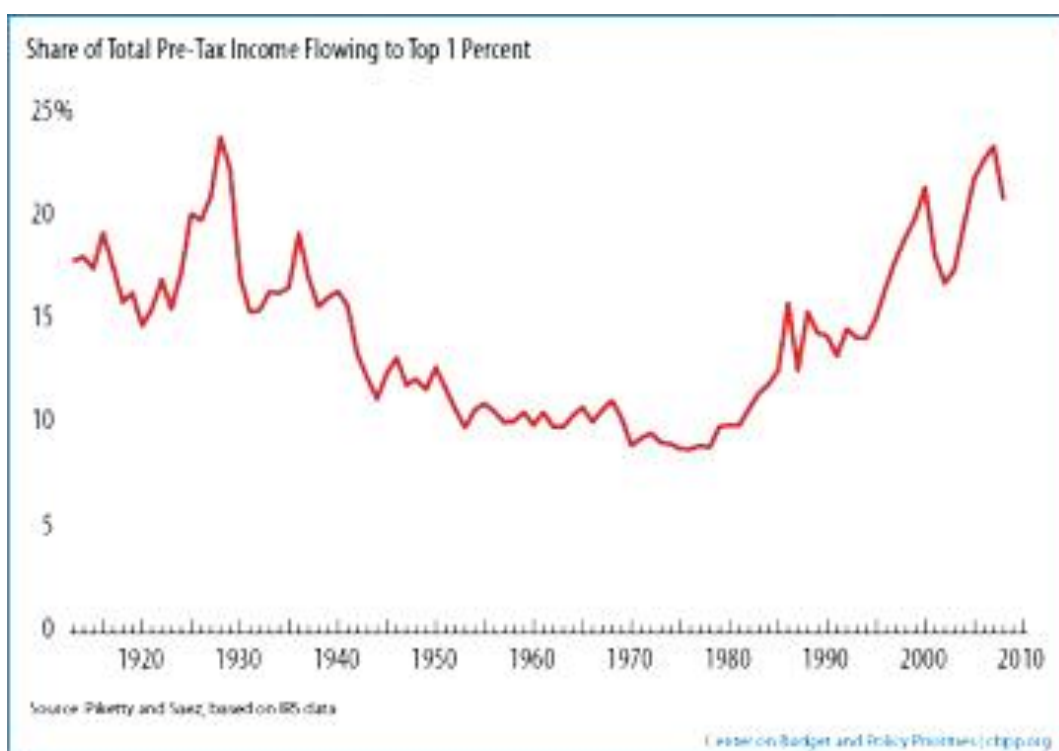
In contrast, the media shows no interest in challenges to the fiscal austerity doctrine. To his credit Krugman has consistently trashed the arguments offered for deficit reduction both in the United States and in Europe. Otherwise the anti-austerity position is almost entirely confined to web-based media that has a much smaller following than newspapers or television.

I suspect -- let me stress that I have never met Piketty, only heard him speak (see his [Real News interview with Lynn Fries](#)) -- that a tactical decision was made to avoid discussion of macroeconomic policy in C21C, as well as to avoid directly confronting political debates. This interpretation draws support from Piketty's membership in a group offering quite [modest reforms of austerity policies of the European Union](#). Most of the previous exposés of inequality had overtly linked it to neoliberal policies of deregulation, especially in the financial sector. Several years of constant and duplicitous attack on this obviously correct causality by the mainstream of the economics profession, rightwing to the core, drove it from public discussion. So successful has been this counterattack that in the United States a majority of people believe that excessive public sector spending explains the lack of a recovery if not the crisis itself.

When listing the many shortcomings of C21C we should not include "naivety". Unless I am

wrong, the decision was made to keep C21C narrowly focused on wealth inequality, while padding that discussion with countless diversions into cultural and historical commentary (dare I say "trivia"?). The goal was to stimulate debate over inequality rather than seriously deal with causality or policy.

That is not the way I would have written C21C, but - hey - it worked. He put the inequality ball in play and now it is for progressives to score a goal with it. I think a step in doing that is to link wealth concentration to capital -- corporations -- rather than individuals. I can imagine a later-day FDR imposing confiscatory taxes on the mega-rich individuals - e.g., the unspeakable Koch brothers. But what do we do about the global mega-corporations? That would require a radicalism with a very socialist flavour.



Keynes and basic assumptions

"If money-wages are inflexible, such changes in prices as occur (i.e. apart from 'administered' or monopoly prices which are determined by other considerations besides marginal cost) will mainly correspond to the diminishing marginal productivity of the existing equipment as the output from it is increased. Thus the greatest practicable fairness will be maintained between labour and the factors whose remuneration is contractually fixed in terms of money, in particular **the rentier class and persons with fixed salaries on the permanent establishment of a firm, an institution or the State**. If important classes are to have their remuneration fixed in terms of money in any case, social justice and social expediency are best served if the remunerations of all factors are somewhat inflexible in terms of money. Having regard to the **large groups of incomes which are comparatively inflexible** in terms of money, it can only be an unjust person who would prefer a flexible wage policy to a flexible money policy, unless he can point to advantages from the former which are not obtainable from the latter."

Keynes, J. M. (2007). *The general theory of employment, interest, and money* (New ed.). Basingstoke: Palgrave Macmillan, p.268

WEA Journal – *Economic Thought*

The editors of the WEA journal *Economic Thought* are delighted to announce that **John King** has joined the editorial team.

We look forward to working with him as we continue to develop the journal and consolidate its standing.

In the meantime, from now on **paper copies of the journal will be available from Amazon.**

The latest issue can be found at:

<http://www.amazon.com/Economic-Thought-Vol3-No-2014/dp/184890150X> and

<http://www.amazon.co.uk/Economic-Thought-Vol3-No-2014/dp/184890150X>

Further, our listing with RePEc is starting to build up the profile of the journal.

We look forward to publishing our next issue in the autumn.

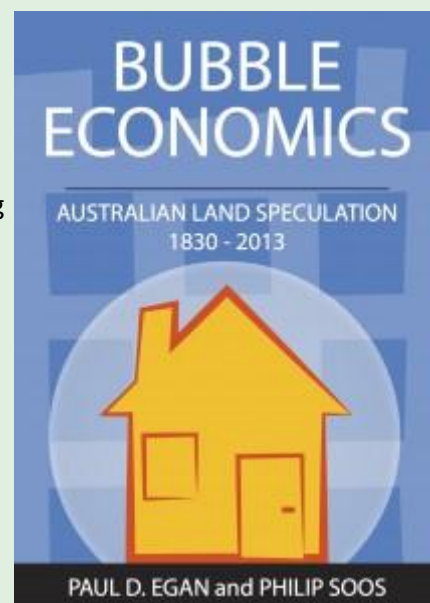
[Editor's note: The Amazon listing provides for customer reviews. Click on the link and add a comment.]

Bubble Economics—New book, free to download from WEA

Here is a free 800 page book from the **World Economics Association** **Bubble Economics**, by *Paul D. Egan and Philip Soos*

In *Bubble Economics*, Paul Egan and Philip Soos explore a depressed Australia in the 1840s, 1890s and 1930s. They detail recurrent patterns of boom-bust credit and asset cycles which heralded financial instability, particularly following speculation in commercial and residential land markets. A financial stability model is put forward to predict economic downturns which is based on Georgist, post-Keynesian and behavioural finance schools of economic thought, informed by data from 1830 to 2013. The trends in Australia's current trade settings, residential property market and banking sector are ominously similar to the key precursors to Australia's 'Great Depression' of the 1890s – a recession or depression may now be imminent. Egan and Soos expose 'rentier economics' in the land down under and discard the dominant neoclassical paradigm, bringing a fresh perspective to the intense debate about Australia's economic future.

[Download Bubble Economics \(PDF, 6.4Mb\)](#)



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