

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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Messages of support...

"The crisis makes clear that the effort of the mainstream in economic thinking to ignore or even suppress differing voices can have disastrous social consequences. There could, therefore, be no better time to build an institution like the World Economics Association that would encourage and project such voices."

C. P. Chandrasekhar, Jawaharlal Nehru University

"Today, economics needs methodological pluralism more than ever. The creation of the World Economics Association is a historic step towards that destination."

Ha-Joon Chang, Cambridge University

"Neoclassical economics created an Euclidean utopia of a self-stabilizing market. However, we live in a non-Euclidean world with market instability and economic complexity. We need the World Economics Association platform for exploring a new paradigm of economic thinking."

Ping Chen, Peking University & Fudan University in China

"With the creation of the World Economics Association, the dismal grey landscape of academic economics takes a turn for the better. Let this be our "Occupy" moment, and the first step on the way toward an ethical, open-minded, relevant and effective profession."

James Galbraith, The University of Texas at Austin

"For far too long, our profession was too willing to accept unrealistic assumptions to make its mathematical models "work," resulting in innumerable GIGOs (garbage in, garbage out). I hope the World Economics Association will give us economists the courage to look at the world as it is so that we can start producing work that is relevant for the society."

Richard Koo, Nomura Research Institute, Japan

"In Latin America we salute the creation of the World Economics Association. There could not be a more appropriate moment to launch it than now, when the international financial crisis and the, so far, in general inadequate responses to it, prove the urgent need to abandon the mainstream view that there is a unique agenda for economic growth, stabilization and development, valid for each and every country or region"

Juan Carlos Moreno-Brid, Economic Commission for Latin America

"Economics has failed us during the current crisis, yet little has changed within the profession. I hope the World Economics Association will help build a less insular, more robust economics discipline."

Dani Rodrik, Harvard University

*"One of the things that happens with organisations as well as people is that they settle into ways of looking at the world and they become satisfied with those.....
...and the world changes."* Steve Jobs, 1995

[Part of the Smithsonian oral history project , 1.36 into the clip at
http://www.youtube.com/watch?feature=player_embedded&v=gTNIDtcr6ms

For more on the 75 minute interview, go to:

http://www.computerworld.com/s/article/9221185/Video_Steve_Jobs_one_on_one_the_95_intervie

Editorial: Why pluralism?

by Stuart Birks, k.s.birks@massey.ac.nz

Welcome to the first issue of the World Economics Association Newsletter. This editorial is an opportunity to give a brief outline of the focus of the newsletter and the WEA. A central theme that you will see emphasised throughout this newsletter is the issue of pluralism, the idea that there is more than one way to look at an issue. So why is pluralism important?

We are not the first to point to multiple perspectives. Note the tale of the blind men and the elephant (Saxe, 1878), where each felt a different part of the elephant and thought it to be like a wall, or a tree, or a rope. A common term that you will see in some literature is "framing". This has been described as, "selection, emphasis, exclusion and elaboration" (Weaver, 2007, p. 143). In other words, from all the available information, there is a selection process, choosing what will be "the facts" (see Carr, 2008), what aspects are important, what will be ignored, and how the selected facts are woven together to paint a picture or tell a story. There are many ways to frame issues, both in terms of possible combinations of available information and in terms of the arrangement of that information.

Kuhn (1970) talks of a scientific community consisting of groups where within-group communication is relatively full, but across groups it is problematic. The use of language to frame issues is important. Fairclough (1995) refers to "ideological-discursive formations" (IDFs) in which groups have their preferred terms. These serve to define debate in a way that supports their perspective. This may arise unintentionally, but the shift from "doctor and patient" to "service provider and consumer", say, is still a redefinition of a relationship. If there is a dominant IDF whereby other alternatives are not heard, it can be seen as "reality", "the truth".

Any alternatives that then arise may be labelled apocryphal or ideological. If there is poor communication across academic groups, as Kuhn suggests, then each group can, internally, see itself as owning the "truth" for its area. Implicitly, then, other groups' perspectives are flawed or irrelevant.

This is not conducive to a pluralist approach. Perhaps we should all be saying that we are constructing artificial representations (analogies) of the real world. If we are not careful, we may believe that our models and theories do actually represent the real world. They don't. They are simplifications and generalisations which, we hope, give us some insights into the real world. We need to be aware of the limitations of our perspectives and of the multitude of possible alternative perspectives which may be useful.

As the large membership of this Association has shown, there are many people who have an interest in these matters. We recognise a need for greater discussion, deliberation and cross-fertilisation of ideas. Hopefully the WEA and its various fora will contribute to meeting that need. The structures are designed to encourage active participation. You are all encouraged to take full advantage of them. We hope to hear a lot from you.

Carr, E. H. (2008). *What is history?* Harmondsworth: Penguin.
 Fairclough, N. (1995). *Critical discourse analysis: the critical study of language*. London: Longman.
 Kuhn, T. S. (1970). *The structure of scientific revolutions* (2 ed.). Chicago: University of Chicago Press.
 Saxe, J. G. (1878). The Blind Men and the Elephant Retrieved 7 November 2011, from http://www.noogenesis.com/pineapple/blind_men_elephant.html

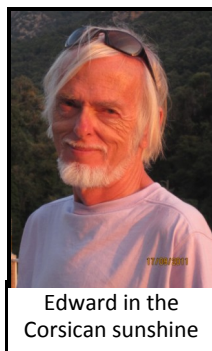
Message from Edward Fullbrook

Dear WEA Members,

Six months ago when Peter Radford, Grazia Ietto-Gillies, Norbert Häring, Vicki Harris, Valerie Radford and I launched the World Economics Association, we hoped that by now its membership would be near 5,000 and its new journals and online conferencing would be four or five months from opening. But the WEA now has 7,000 members; its new journals and conferencing are only two to three months away from being fully operational; and it has this substantial newsletter which back then we had not even imagined. For all this much credit goes to Niall Douglas, Alan Freeman, Stuart Birks and others too numerous to mention.

So why has the WEA taken root so fast? Two big reasons come to mind.

One, rarely in history has a major profession been so in need of complete overhaul as economics today. And in many quarters this need is now openly discussed. Dimensions acknowledged as requiring fundamental redesign include economics' paradigm, epis-



Edward in the Corsican sunshine

temology, ethics, socio-economic structure, technological formats and, not least, geographical representation.

Two, we are now living in a time when increasingly groups of humanity, sometimes very large ones, no longer feel powerless to resist traditional tyrannies. Tyranny takes many forms, including dogmatism and scientism. The latter in economics has meant requiring economists "to ape . . . what are supposed to be the methods of the natural sciences" (Karl Popper). Working together these two isms empirically emasculated key parts of our discipline, and the Global Financial Collapse awakened many of us to the devastating real-world effects that the faith-based approach to economics entails.

Potentially it is within our power to change all that. Bottom-up movements for reform depend on initiative from the many. The people who join up or turn out and take part are the ultimate agents of change. They are also the ones who expand a movement's base. We are 7,000 now, but we want many more.

The organizers thank you for your support.
 Edward Fullbrook

General equilibrium: I object...

By John Weeks

The amazing growth of the World Economic Association indicates the strong, even pent-up desire for a more pluralist economics profession, more like it was when I passed through the PhD rites at the University of Michigan in the second half of the 1960s. While the *raison d'être* of our organization is inclusiveness, it is useful to identify what the source of the unease each of us feels with current mainstream theory.

The fundamental source of my objections to mainstream economics is the version of Walrasian General Equilibrium that rules its theory. If one interprets Walras' Law to mean that all markets clear in a system that includes production (which Walras' model did not), the result is full utilization of resources including labor. Full utilization is the pre-condition for almost every important neoclassical conclusion. Every relative price story, be it as simple as partial equilibrium supply and demand, requires full utilization in order that the analysis treat *notional* demand and supply. As is well-known, if firm decisions are based on *effective* demand, the quantity supplied and demanded are not independent of each other (there is no supply curve as such).

Equally important, at the macro level the neoclassical employment and inflation parables derive from full utilization.

The neutrality of money holds only in full utilization GE, and the downward sloping demand for labor curve refers to GE notional demand (even ignoring the Cambridge Critique). The neutral money and wage-profit tradeoff parables, plus the rejection of the Paradox of Thrift, underpin much of the critique of active macroeconomic intervention that dominates the policy debate.

Without full utilization of resources none of the standard parables hold, implying the need for pragmatism in policy making. As Frank Hahn so clearly explained in the 1980s, the only full utilization market clearing story the neoclassicals have is Walrasian. Hahn himself succinctly stated the source of my disquiet:

[T]he recent meaning given to equilibrium (and disequilibrium) has had quite disastrous effects. Equilibrium is defined as Walrasian competitive equilibrium or a rational expectations equilibrium. All other states are said to be in disequilibrium.

[*Equilibrium and Macroeconomics*, Oxford: Basil Blackwell 1984, 8-9]

[see also John's comments on economic policy and theory in his blog at: <http://jweeks.org> — Ed.]

The formal structure and finances of the WEA today and tomorrow

I thought it would be a good idea to briefly outline how the World Economics Association is formally constituted and structured in its current start-up phase and how we intend for it to be structured a year or so from now.

Getting the World Economics Association legally constituted and a bank account was nearly as difficult as getting its first 5,000 members. It is incorporated under a new United Kingdom legal entity called a Community Interest Company. Essentially it means that the WEA is a non-profit organization with a lock on its financial resources, but escapes the awesome regulatory procedures that we would face if the WEA were registered as a charity. I (UK), Norbert Häring (Germany) and Vicki Harris (UK and the legal wizard who led us through the legal technicalities) are currently its three directors. I am also its so-called "Company Secretary". As such I have appointed the following interim Executive Committee.

Juan Carlos Moreno Brid, Mexico, UN Economic Commission for Latin America and the Caribbean

C. P. Chandrasekhar, India, Jawaharlal Nehru University

Ping Chen, China, Peking University and Fudan University

Edward Fullbrook, UK, Real-World Economics Review

James K. Galbraith, USA, University of Texas at Austin

Grazia Ietto-Gillies, Italy / UK, London South Bank University

Steve Keen, Australia, University of Western Sydney

Richard C. Koo, Japan, Nomura Research Institute

Tony Lawson, UK, Cambridge University

Peter Radford, USA, Radford Free Press

Dani Rodrik, USA, Harvard University

When the WEA's two new journals and its conferences are up and running, minds will be turned to writing a formal con-

stitution with procedures for **electing** officers and Executive Committee members. In this process there will be provision for input from the general membership. In framing the constitution, special attention will be given to assuring that it will not be possible for a country or a bloc of countries or a particular orthodoxy to gain control of the WEA and thereby defeat the purposes for which the WEA was founded.

From a personal standpoint I should add that I eagerly look forward to the day when I can give up most of my current WEA responsibilities so as to be able to turn my energies to other projects that I wish to undertake. So although I expect to stand for the Executive Committee, I will not be a candidate for one of the WEA officer positions.

Finally, I should mention finances. Through the generosity of members when joining we have collected about £14,000 GBP or 16,300 EURO or 21,700 USD. With one minor exception, all the work performed on behalf of the WEA, and there has been a hell of a lot of it, has been on a voluntary basis. But the WEA cannot continue entirely on that basis for long. More substantial funding will be needed to employ people to administer the journals and the digital setup. Our strategy has been to postpone more substantial fundraising until the new journals and conferencing are operational – until we have shown that the WEA is more than just a set of dreams and promises. That point is drawing near. In addition to seeking contributions from members, we will seek funding from one or more foundations.

And there is one other thing. We still need more **volunteers**. One or more press officers would be especially useful. We need advice on approaching charitable foundations, and **IT skills are especially in demand**. Contact me at:

fullbrook@worldeconomicssassociation.org, **Edward Fullbrook**

WEA online conferences

By Alan Freeman (afreeman@iwgvt.org) and Grazia Ietto-Gillies (jettogg@lsbu.ac.uk)

The World Economics Association supports the organization of conferences on line. To this end it has established a Conference Organizing Committee (COC). Any WEA member can apply to the Chair of the COC to be a Conference Leader

(organiser@weaconferences.com). The Leader produces the conference call and is responsible for soliciting, vetting and accepting relevant papers and comments. The COC will support Leaders in these tasks. When a conference call is posted the WEA members will be invited to register an interest. Those who register can participate in the conference as presenters of papers and/or commentators and/or as attendees.

The WEA conferences will have the following features.

The submitted papers can be at the work-in-progress stage. The papers accepted will be posted for debate.

Each conference will have a dedicated *Discussion Forum* where debates around each paper will take place. The debates will mainly be text-based. We are considering the possibility of live exchanges at the end of each conference.

In order to facilitate text-based discussions, the conference time will normally be four weeks – rather than the traditional 2 or 3 days in location-bound conferences.

All papers and comments will be vetted to make sure they are relevant and do not contain material unsuitable for publication.

Conference papers and comments can be referenced for citation purposes and in order to establish priority. At the end of the conference, the papers and the com-

ments will be lodged in the WEA archives.

For more on our conference guidelines, go to www.worldeconomicssassociation.org

We shall soon be in a position to start our conferences and we encourage you all – our members – to become involved in the conference activities. We are ourselves thinking of topical areas for our first conferences.

The first conference is being prepared now. Its theme is **Economics in Society: The Ethical Dimension**. World economic events of the last few years have brought to the fore several issues including ethics in our profession. This inaugural conference is special in that (a) we are planning it with a view to use it not only as an academic debate but also as a platform for drafting the WEA ethics statement; and (b) the debate side of the conference is of great relevance. We want the ethics statement to be the outcome of full debate and participation among our membership. We therefore encourage members to take part in the debate by sending in papers as well as comments and thus help us shape the final statement.

Other conferences being planned relate to: green issues; economics curriculum; economic indicators; the legal framework of the financial architecture; and the economics of culture.

Members of the COC:

Marian Cloers; Alexandre Cunha Leite; Alan Freeman; Grazia Ietto-Gillies (Chair); Ilker Aslan; Ghanshyam Singh; and Rita Yi Man Li.

WEA Conference—Economics in society: The ethical dimension

Background

There have been many comments made, both within and outside the profession, about the role of economics in the recent worldwide crisis. These comments have, by and large, focused on the content of the subject, on alternative theories, on the over emphasis on formalization, and on the recent trajectory of economic thought in general. Many non-economists have also focused on the performative nature of contemporary economics in relation to issues such as the role of finance; the impact on development and on distribution within and across countries.

In general these comments amount to a criticism of the excessive narrowing of economics in terms of methodology,; content and theoretical paradigm used; as well as criticism of its persistence in a naïve view of human behavior, and of its apparent ideological bias

Thus far the profession has responded in two ways: by raising the volume within its longstanding theoretical conflicts; and by engaging in a wide-ranging conversation about the ethical questions that the crisis has raised.

Conference Outline

It is to extend this latter response, and to bring a more urgent focus to it, that this WEA conference is being organized. This inaugural conference is special in two respects. First, because the debate part of it is paramount and we hope to get most of our membership involved in it. Second, because we aim to arrive at summary conclusion of our debate leading to a WEA statement of ethics in the economics profession. We want such a statement to be the result of an inclusive and participative process.

The overall focus of the conference is ethical issues around our discipline and profession. Specifically the WEA conference has two tracks. The first relates to ethical issues internal to the profession. They include the following: evaluation of research and the connected issue of pluralism of economic approaches; the way in which economists deal with each other in terms of research and publications; their transparency in financial support for research and in linkages with political parties, industries and organizations. This list is not meant to be exhaustive and the debate may highlight fur-

ther concerns.

The second track relates to the relationship between economics and society at large. Within this second track the debate will extend to attempt to define more carefully the relationship that economics has, as a discipline, with society at large; to determine whether that relationship has an ethical dimension; and, if so, what burden that dimension then places on economics and economists.

This is not necessarily a discussion about whether the content of economics is ethical, although that, obviously, plays a part, but is more focused on what it means to be an economist; what society expects of the role played in it by economists; what training is necessary for someone to perform that role adequately; and whether those requirements are being met.

Economists have long opined on the efficacy of self-regulation; on the consequences of its periodic failure; and on the variety of sources of remedial regulation. This conference is aimed at applying that same analytical effort at economics itself.

Conference logistics and call for papers

We call for papers on any of the above topics. Work-in-progress papers are acceptable. Given our desire to encourage maximum involvement in this vital topic, shorter papers of as few as 1,000 words will also be considered for discussion.

The proposed conference will take place online under the auspices of the WEA Conference Organizing Committee, and will conform to the [WEA conference rules](#)

All submissions will be screened for relevancy and suitable content, after which they will be posted to a dedicated WEA Discussion Forum for debate.

This debate will take the form of an extended, text-based, online exchange and commentary over a period of four weeks, after which the papers and comments will be lodged within the WEA archives. The contributions and debate of this special conference will be used as a platform for the drafting of a WEA statement on ethics in the economics profession.

All WEA members interested in these issues are encouraged to register and participate in this ground-breaking conference. The participation can be as author of a paper or commentator or as attendee. It will be held [here](#).

If you go now to the [conference site](#) you can register for it just by giving your email address. You will then be notified when the conference begins. You will also be notified, if you wish and at the time interval of your choice, when new papers are presented. Similarly you can choose to be notified when comments are posted on papers of particular interest to you. Please do [sign up](#) and encourage others to sign up so as to help make the WEA's first conference on this major issue a success.

The conference leaders are: Peter Radford, pacr@mac.com, and Alan Freeman, afreeman@iwgvt.org, correspondence, proposals, suggestions, and papers for consideration can be sent to either one.

Submissions are invited immediately. The exact timing of the four-week discussion period will be announced to all presenters and registered members as soon as sufficient submissions have been received, vetted, and posted on the Discussion Forum.

Asset sales and framing by Stuart Birks, k.s.birks@massey.ac.nz

The way a policy issue is viewed depends on how it is framed. The perspective, choice of theory, aspects that are emphasised or ignored, are important determinants of public perceptions. An example of this is asset sales by the public sector. It is presented by some as "selling off the family silver", as if it is highly undesirable.

There are alternative frames that can be used. To illustrate, a problem that we have, and the reason why some governments are thinking of asset sales, is that stimulus packages require running government deficits and an increasing build up of public sector debt. They have not been successful as a hoped for short term shock that stimulates private demand because the private sector has not been responding. On one level this is seen as good because past high consumption levels were not sustainable given people's incomes. However, that does not mean that current low levels of demand are desirable. Perhaps, then, what is needed is increased private sector demand not through consumption but through investment. This is not happening, so the burden still lies on government to provide a sustained stimulus, which it cannot do because it pushes public sector debt to unsustainable levels.

An alternative approach would be to look at asset sales not as selling off the silver, but as a means of creating public-private partnerships (PPPs). These have been suggested as a way to bring in private sector investment and to stimulate the economy at less cost to governments. However, in comparison to existing projects, new projects have longer lead-times and higher risk. PPPs can be created by selling portions of existing assets, providing funds for the government to pro-

ceed with new developments.

This has two effects. It means that there is an opportunity for immediate input by the private sector, there being less lead-time than required for new projects. Also, as with private sector commercial property investments, the development stage is high-risk and demands a high expected return, whereas the subsequent investment stage is lower risk and so requires a lower expected return. This translates into asset prices, with existing assets commanding higher prices. PPPs for new investments are at a riskier stage, so the return required by the private sector will be higher.

Perhaps the asset sale option should be seen not as selling off silver, but as a quicker and more remunerative way to achieve public-private partnerships. This would bring increased demand through private sector spending and less accumulation of public sector debt.

Of course, there will be other ways to frame this issue. The identification of these is an important part of political and legal rhetoric, or, in Adam Smith's words, deliberative and judicial eloquence. See also Lynn and Jay (1989, pp.176-7, 302, 364) for suggested methods of favourable framing.

Smith, A. (1963). *Lectures on rhetoric and belles lettres: delivered in the University of Glasgow by Adam Smith, reported by a student in 1762-63*. London: Nelson.

Lynn, J., & Jay, A. (1989). *The complete Yes Prime Minister: The diaries of the Right Hon. James Hacker*. London: BBC Books

A Chinese perspective—Economics underlying the Chinese transition

By Yanli Huo¹ (huoyanli7915@163.com)

Few would deny that China has been the economic superstar of recent years. However, just as Peter Drucker (1993, p. 26) puts it, “Every practice rests on theory, even if the practitioners themselves are unaware of it”. The successful Chinese transition rests on the gradual transition of economics: moving away from Marxist economics to western economics. For example, Marxist economics criticizes private ownership and capitalists, but China currently promotes private enterprise and honours capitalists; the former emphasizes class struggle, but the latter builds harmonious society; the former suggests that economic depression is overcome by destroying capitalist society, whereas the latter advocates expanding injections, namely investment, government expenditure and exports. When China faced an economic meltdown in 2008, policy makers who had insisted that they were real Marxists drew on *The General Theory of Employment, Interest and Money* by Keynes and Roosevelt’s New Deal, not *Das Capital* by Karl Marx and experiences in the former Soviet Union. At the end of 2008, China applied a 4 trillion Yuan economic stimulus package to boost economic growth.

Generally speaking, the western economics underlying the successful Chinese transition has at least the

following basic characteristics:

- (1) Emphasis on “spontaneous order”, creativity, freedom, spontaneity of human beings and the market mechanism, providing an environment for individuals to interact in their own interests;
- (2) Emphasis on private enterprise and the role of entrepreneurship;
- (3) Emphasis on definition and protection of property rights, especially private property rights;
- (4) Emphasis on government functions of correcting market failure, coping with business cycles and promoting employment and economic growth;
- (5) Emphasis on lucidity and reality of theories that are easy for policy makers and individuals to understand, instead of on sophisticated mathematical models.

The compatibility of economic thinking and the economic system is of great importance. Marxist economics is compatible with a planned economy, and western economics is compatible with a market economy. The failure of a planned economy is the failure of the economics underlying it. The success of the Chinese transition can be attributed to many factors. Among these is the economics underlying it.

Drucker, P. F. (1993). *Innovation and entrepreneurship: practice and principles*. New York: HarperBusiness.

¹ Henan University of Economics and Law, China

A Thai perspective – China’s economic Growth

By Pasuk Phongpaichit¹ (chrispasuk@gmail.com)

Over recent decades, most countries in Southeast Asia have pursued growth through some form of export-oriented industrialization (EOI). At first they sought growing markets in the West and Japan. As these economies have faltered while China has soared, China has become increasingly important as a trading partner. Unsurprisingly, these countries have looked on rising China as an opportunity rather than a threat. This is especially true in Thailand, where exports have been the overwhelming contributor to growth in recent years, and where China’s share has risen from 3 percent in 1995 to reach 11 percent in 2010, surpassing the US as the single largest destination.

But a new note has crept into the view of China from Thailand and elsewhere in Southeast Asia. By sustaining growth above a 10 percent average over three decades, China is sweeping past the Southeast Asian economies in terms of both the capabilities of its industries and the sophistication of its consumers. There is a growing re-

alization that Southeast Asian economies may not be able to maintain their share of China’s growing market if their own technological capability lags too far behind. The theme of the recent annual seminar of the Bank of Thailand was that Thailand is stuck in a middle income trap—failing to upgrade its technology in order to compete with more advanced countries on the one hand, while being challenged from below by countries with lower labor costs and ambitions to grow by the same EOI route.

In this context, China’s economy is taking on a new significance—not just as an engine of growth but as an exemplar of growth strategy. Just like Thailand and other Southeast Asian economies, China pursued export-oriented industrialization, but only as one element of its strategy. China also invested heavily in education, constantly expanded its expenditure on R&D, pursued various routes to acquiring technology, developed its own brand names, and maintained a state role in financial markets. Expenditure on R&D is now around 2 percent of GDP. The numbers of university graduates in

¹ Visiting Professor, Kyoto University

science and engineering are six times that of the US. Its financial sector has been relatively isolated from recent turmoil, and its banks allocate credit in line with government goals for development.

The message for Thailand and other Southeast Asian economies is that, alongside EOI, China has emphasized acquisition of technology and finance for development. While the private sector has had a role, so has the state—in a big way. This has been very different from the Southeast Asian model in which the state's role has been much more limited. Moreover, in Thailand it's now clear that the 1997 financial crisis, by destroying so many domestic firms, removed one key element of eco-

nomical dynamism, resulting in lower growth rates since the crisis.

The idea that Thailand is stuck in a middle income trap and that a more pro-active state is needed to escape this trap has won rapid support among academics and technocrats. The Bank of Thailand still promotes a rather conservative view with the state merely taking a larger role in the provision of infrastructure. But others are pushing for ways to pursue what used to be called industrial policy within the current framework of WTO, and some are arguing that it's time for middle-income countries to lobby for reforms of WTO to open up more scope for pro-active state policy.

A Latin-American perspective—Strong foreign exchange intervention

By Roberto Frenkel¹ frenkel@cedes.org

On September 6, 2011, the central bank of Switzerland announced a cap on the price of foreign currencies of 1.20 Swiss francs per euro and reported that it was willing to buy euros in unlimited quantity. "The massive current appreciation of the franc is a major threat to the Swiss economy and carries the risk of a deflationary process," the bank said, adding: "As a result, the bank is seeking a substantial and sustained devaluation of the franc."

The Swiss currency had been appreciating under the pressure of capital inflows seeking refuge from the uncertainty of euros and dollars. It was affecting competitiveness and consequently, levels of activity and employment. The impulse was not financial yields, as the Swiss short-term rate is zero.

Orthodox folklore has two basic ideas about exchange rates and interventions. It says that the free operation of markets leads exchange rates to optimal equilibrium levels, so that interfering with their operation inefficiently distorts resource allocation. It also says that the interventions are powerless to substantially alter market trends, so that real exchange rates tend ineluctably to their equilibrium levels, with or without interventions. The central bank of Switzerland challenged both notions. It intervened precisely to avoid the destructive distortion that was induced by the free operation of the market and challenged the market to bet against its policy.

With a cap on the nominal exchange rate, the continuation of a real appreciation trend of the franc could only result from the acceleration of domestic inflation. Anybody having these expectations will surely be disappointed because, with a zero interest rate, the margin of monetary sterilization policy by the SNB is unlimited.

The intervention has been successful not only in putting a brake on the appreciation trend, but also in disciplining the market by aligning its behaviour with the policy objectives of the monetary authority.

The success of the Swiss foreign exchange intervention has two keys. One is that there is excess supply of foreign currency at the price the central bank wants to defend. This is what enables a strong currency intervention, as strong as to announce an unlimited supply of francs at that price. The other key is the low domestic interest rate (zero in the Swiss case) that provides sustainability to the sterilization policy (if the Swiss central bank would eventually want to limit the expansion of the monetary base).²

The Swiss measure clearly exemplifies the notion of a strong foreign exchange intervention. I have been dealing with this notion for a long time. Now I have a clear example at hand and I can say: "See, colleagues, this is a strong foreign exchange intervention in a managed floating regime."

There are several Latin American countries in which the conditions listed above for the success of a strong intervention are verified. In Chile and Colombia, for example, the absence or weakness of the interventions is attributable solely to the ideology or lack of courage to act independently of what the markets, the IMF and the United States administration think. The Brazilian case is more complex, because a high real interest rate guaranteed by the state is a formidable foreign capital attractor, and, on the other hand, its magnitude makes the sterilization operations unsustainable. The success and sustainability of foreign exchange interventions in Brazil would require a complete reformulation of the macroeconomic policy.

¹ CEDES Associate Researcher and Professor at the Buenos Aires, Torcuato Di Tella and FLACSO-San Andrés universities.

² For an explanation see Frenkel, R. (2008). "The Competitive Real Exchange-Rate Regime, Inflation and Monetary Policy," *Cepal Review*, Vol. 96, pp. 191-201

Open research evaluation system an integral part of WEA philosophy

By Grazia Ietto-Gillies



The guidelines for our two new journals - *World Economics Journal (WEJ)* and *Economic Thought (ET)* – put forward a system of research evaluation based on: (a) pre- and post-publication commentaries; (b) double openness; and (c) a *Discussion Forum* accessible to all WEA members. The latter two characteristics feature also in our guidelines for conferences.

In this contribution I would like to explain how the system developed for WEA is in line with the overall philosophy put forward in our *Manifesto* and specifically with the aims of: plurality of approaches to economics; inclusivity; excellence in research; and full utilization of digital technologies.

The Peer Review (PR) system of research evaluation - in which a paper is published following positive reports by 2-3 referees in a double-blind process - has been in use in most subjects for many decades. However it has come under severe criticisms in the last two decades or so¹. Recently the PR system has, indeed, been the subject of an enquiry by the Science and Technology Committee of the British House of Commons.

The criticisms levelled at the PR system are many and range from costs/efficiency issues to effectiveness particularly in terms of its inability to give assurance about detection of mistakes or fraud and its inability to detect the really original, ground-breaking work and secure publication for it. This latter criticism is the most serious and damaging one and it has been documented in several works (Horrobin, 1990; Gans and Shepherd, 1994; Legendre, 1995). Gillies (2008) uses a Kuhnian philosophical framework to explain why in several instances from the history of sciences the now acclaimed works were not recognized as significant by the contemporary peers.

Peers tend to go for orthodoxy and particularly so in high rated journals (Lee, 2007). The PR system, therefore, tends to reinforce the dominant paradigm by the related system of journals' rating, by the selection of referees and by possible bias of referees who see research through their own approach to the subject.

The system used in the WEJ and ET is based on the following principles.

- The digital technologies have made the function of space allocation by journals almost irrelevant. Any paper can be posted on a web site without additional costs and indeed many researchers now post their papers on their web sites prior to publication.
- The digital technologies are being used extensively by journals' publishers in the publication process of research papers. For example in communications between editors, referees and authors and in copy editing. However, so far, little use has been made of them for the *evaluation process itself*. The WEA system does just that: it involves a large number of potential commentators from many countries and belonging to a variety of economics schools.

- The PR system is based on the principles of assessment/rating and of exclusion. Because journal space is limited and the ratio of paper submission to acceptances is very high, the editors necessarily look for support and justification for the rejection of many submitted papers. In order to do so often referees look for faults rather than areas which are positive and could be further developed. These critical points do not mean to devalue the work of referees – many of whom labour very hard and often come up with helpful suggestions – but only to point out a problem in the system they are caught in: in the end no matter how helpful some of them may want to be, their reports are used to exclude papers from publication in specific journals. But again no blame can be attached to the editors who have to allocate limited space in their journals.
- Research can achieve best results when it is developed as a social activity not necessarily in the sense of two or three people working together on a project, though this is increasingly the case in many fields. The social context is seen here as researchers developing their own ideas on the basis of previous research – which is always the case – and benefiting from discussions and interchanges with peers in a constructive environment. The involvement of peers in the further development/evaluation of research is very useful. However, it does not have to be on a confrontational and rating basis. It can take place on the basis of exchange of ideas for the advancement of the specific topic of the paper.
- The involvement of many researchers in the evaluation process is preferable to only 2-3 reviewers because: (a) more people are more likely to spot plagiarism, mistakes, data problems; (b) if many people read a paper it is more likely that one or two of them spot the originality and value of a paper which is out of the ordinary and may thus appear strange and wrong to the few. Thus one of the major pitfalls of the PR system is less likely to manifest. Moreover, the involvement of many commentators increases the likelihood of getting contributions from researchers belonging to different schools/paradigms. This helps to achieve our aim of plurality of approaches to economics.
- Double-sided openness: the names of the author(s) and those of reviewers are revealed². The attribution of comments to a specific paper encourages commentators to come forward and make known their – sometimes provisional – views knowing that they are posted with their name. Attribution may, therefore, eliminate reticence in putting forward very original comments; it may also encourage commentators to consider carefully their critical arguments and make sure that they are not inspired mainly by adherence to a specific paradigm and ideology.
- A common worry about open posting (where the names of authors and commentators are disclosed) is that commentators feel embarrassed to be critical. However, it is worth pointing out that: (a) reviewers of

¹ For references to specific works see Ietto-Gillies (2008)

² Editors may occasionally grant anonymity to commentators at their discretion.

books - where a doubly open system is used as a matter of normal academic activity - are often quite critical; (b) moreover, if the process is online commentators and authors may be in very distant parts of the world and do not know each other; and (c) if the system is less confrontational than the PR system this is no bad thing: a critically positive system is more likely to lead to the advancement of research and to be less disheartening for young researchers.

- *Post-publication commentary* is as important for the advancement of research as pre-publication one. The life of a paper does not end with publication; hopefully that is only its beginning. Other researchers will read the paper for years to come. The attraction of readers for years and years after publication is evidence of the relevance of a paper. Some readers may develop further research of their own after reading an article and their research may lead to new publications of their own. Others may have points to make about it which do not amount to the development of a full research project or paper but that can, nonetheless, be relevant and useful for the further advancement of the field. A post-publication commentary as a standard feature of journals allows these people to have their comments published – at the discretion of the editors – with attribution. As with pre-publication comments, the attribution is important because, knowing that their name will appear, people may be more willing to come forward and publish their comments, rather than hold them back.

There may be problems with the system we have devised ranging from too many uninformed comments to too few comments; comments that are insulting (they will not be posted!) to comments that are too bland and unhelpful for the development of the paper. At WEA we are aware that many problems may develop and are prepared to take action to correct them with the help and support of our excellent team of editors. We are developing a system that involves a change in the culture of research evaluation within the economics profession. We and our membership will go through a learning process. The participation and collaboration of the membership – of you all – is essential for this learning process and for the success of our system.

I have recently come across a similar system applied to the

Journal *Atmospheric Chemistry and Physics* and have been greatly encouraged by its success. An article in *Nature* (Koop and Posch, 2006) by two of its editors describes the system and assesses it after 5 years of operation. Their system is very similar to the one we developed for WEA. The two editors write about their experience: "...Our statistics confirm that collaborative peer review facilitates and enhances quality assurance." and "We believe that collaborative peer review with a two-stage publication process and interactive public discussion effectively resolves the dilemma between rapid scientific exchange and thorough quality assurance. It fosters scientific discussion, deters submissions of substandard manuscripts, conserves reviewing capacity and enhances the density of information in final papers".

So, on this hopeful note I end my piece and invite all WEA members to get involved in our – your – journals and conferences and to help us make them successful.

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Grazia Letto-Gillies

London Oct 2011

New book...



Innovation and Economic Crisis. Lessons and Prospects from the Economic Downturn

by **Daniele Archibugi**, Professor of Innovation, Governance and Public Policy, and Research Fellow, **Andrea Filippetti**

The book focuses particularly on Europe and investigates the connection between the economic crisis and innovation investment by firms. It is an area that is often overlooked in

scholarly and public debates on the issue. Consequently, the impact of the crisis on innovation has been largely

underestimated.

The authors propose possible explanations for the crisis, examine which countries have continued to innovate in spite of the crisis and those that have started to decline. They also consider the strategies being deployed by the manufacturing and service sector, and identify the companies that, through creative destruction and technological accumulation, are likely to lead a new economic renaissance.

This book can be regarded as a complementary reading for those interested in the effect of the crisis with a particular focus on Europe.

[Published in 2011 by Routledge in the Studies in Global Competition series. <http://www.taylorandfrancis.com/books/details/9780415602280/>]

Two WEA Journals

Real-World Economics Review

The World Economics Association has been established primarily off the subscriptions list, network base and reputation of the *real-world economics review*. The review continues publication as before, expect now as a WEA journal. Hopefully its eclectic, timely and controversial nature will be maintained. Its relation to the other WEA journals is quite similar to what the AEA's *Journal of Economic Perspectives* relation has been to the *AER*. The *RWER* will offer analysis of current economic events, inquiries offering new perspectives, papers which coherently violate economics' received wisdom and, more generally, material which encourages critical thinking within the profession. Articles appearing in the journal will be a mixture of ones solicited by the editors and ones submitted by authors to pae_news@btinternet.com

Currently there are 13,684 *direct* subscribers to the *real-world economics review*. Upwards of 3,000 current WEA members are not direct subscribers, but beginning with the last issue they receive access to the *RWER* on the same basis as direct subscribers. This adds up to a

RWER subscription base of more than 16,000. Over the next year I expect us to recruit from this base at least several thousand more WEA members.

Unlike with traditional print and post journals, with e-journals editors can tell exactly how many subscribers bothered to look at each issue, when they did so and which papers were most read. The download statistics for the *RWER* are impressive. By the end of the first 48 hours after publication of a typical issue, half the subscribers have downloaded one or more papers, and in the majority of cases the whole issue. The number of copies of *RWER* papers downloaded per year is now near the one million mark.

There have only been three issues of the *RWER* in 2011 because the WEA project has taken up most of my time. Recently I have taken on Jamie Morgan as an associate editor and will probably take on another one or two. Two copy editors and two formatters are also needed for the team pae_news@btinternet.com.

Edward Fullbrook
Editor

World Economics Journal

This new, online-based journal of the World Economics Association, is ready to accept submissions of papers (for e-mail addresses, see below). The *World Economics Journal* will publish articles in all branches, methods, and paradigmatic approaches of economics except those related to the history of economic thought, philosophy and methodology for which the World Economics Association has the dedicated journal *Economic Thought*. Articles with a multidisciplinary content are welcome.

In line with the commitment of the World Economics Association, the *World Economics Journal* aims to promote economics' engagement with the real world so as to confront, explain, and make tractable economic phenomena. Editors are particularly interested in submissions covering research areas that are important for the human condition and under-represented in traditional journals. This includes the role of money and the financial sector in the economy, structural change and economic development, labour processes and unpaid labour, income and asset distribution.

We are also particularly interested in papers examining economic structures and developments in world regions or countries, which are under-served by established international journals.

Papers submitted to the *World Economics Journal* will be vetted by the editors. Those that meet minimum standards of professional quality will be posted on the journal's Discussion Forum with the name of the author (s) in order to solicit comments and discussion (with low level moderation). This open validation process

serves to enhance the social and cooperative nature of research and increase the transparency of the selection of papers for publication in the journal. If editors need more input into their decision, they will solicit comments or reviews from experts in the respective fields. Editors aim to reach a decision on publication no later than 12 weeks after submission of the paper. Authors who submit papers for the open peer review are kindly requested to reciprocate the effort of reviewers and commentators by providing comments or reviews on the papers of other authors.

More information about **open peer review** and **guidelines for manuscripts** are available at <http://www.worldeconomicassociation.org/Journals/WEJ/WEJ.html>. See also p.4 of this issue for an article by Grazia Ietto-Gillies on open research evaluation.

WEA's IT-team has attempted to build an environment for the Journal and the open peer discussion that is safe, easily accessible and able to handle the expected traffic. This is a relatively new approach and the task included some significant challenges. Our team has done a tremendous job, but we ask for your patience with any teething problems that may arise in the early stages.

Papers can be submitted at any time and will be considered for the next available issue of the journal after they have gone through the open peer review. Please send your submission to one of the editors:

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Econometrician? So you're a historian...

What are we doing when we use econometrics? Essentially, it involves analysing data from the past, trying to identify patterns and relationships. So what do historians do? They look at a lot of information from the past. Similarly, they are trying to identify patterns and relationships to see what they can understand from them. Econometricians are therefore doing history.

However, as Carr (2008) said in his lectures on the nature of history, historians select from all the information, making choices as to what they will consider to be "the facts". They then look to interpret from there. With econometrics, we are also looking at information from the past, but we are only taking a certain sort of information, the type that is amenable to quantification (or categorisation), giving series of numbers that suit econometric methods. We are being very selective in the sort of data that we use. We are then very selective in the sort of functional relationships that we choose to apply (or are able to apply). So when econometricians do history, they do so in a very limited way.

We can consider this also using the analytic-synthetic distinction described by Richardson (1971). Analytic is "top-down", starting with a model and then estimating the parameters. With synthetic, you start with a lot of information and then see what patterns can be identified, so it could be considered a "bottom-up" approach. There is scope for both approaches. With econometrics we are essentially taking a top-down approach. We start by assuming the existence of a structure and fit the data. Historians are more likely to be taking a synthetic view, looking at a

by Stuart Birks, k.s.birks@massey.ac.nz

wide range of information and seeing if they can draw some reasonable picture from that. We should be aware that we are being quite restrictive in the options we are considering.

This says something also about the role of theory in analysis. If we start with a structure, whether we acknowledge it or not, there is either an economic theory or a de facto theory implicit in the structures that we are estimating. Minsky (2008) suggests that theory focuses the mind upon specified problems, but it also narrows the field of vision. Richardson suggests that we "consider whether our inherited stock of theoretical constructions do not distort our vision of the plain facts of economic life." (Richardson, 1971, pp. 433-434)

This is not a rant against econometrics, but it does suggest that there is a lot more that can be done in research that incorporates econometrics. There is a lot more that can be done before the estimation and in the interpretation of results afterwards. Few would advocate a simple "crank the handle" approach to applied econometrics. If we frame the issue in a broader way and say that econometricians are actually doing a form of history, then we would recognise that we should perhaps also be bringing in other information and other factors. This is not just in the estimation process, but also in identifying the initial structures, in the interpretation of results, and in recognising that there may be aspects which are not addressed within the models and model estimation but which are also relevant.

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New book...

Reassessing the Paradigm of Economics. Bringing Positive Economics Back into the Normative Framework

by Valeria Mosini, LSE

Published in 2011 by Routledge in their INEM Advances in Economic Methodology series:

<http://www.taylorandfrancis.com/books/details/9780415575119/>

Valeria Mosini argues that the search for simplicity and overreliance on questionable "scientific" criteria have led economists astray. The book has been endorsed by people such as Eberhard Keindle, Tony Lawson, Marcello De Cecco and Costas Lapavistas. Here are edited extracts from a conversation with the author:

Were you surprised by your conclusions? I did not have pre-conceived expectations on the outcome of my research, though I, like many others, had the clear perception that the economic and financial systems under the neoliberal paradigm were delivering the very opposite of what they promised (economic 'equilibrium' and increased wealth for all).

What do you think might be the most controversial findings in the book? That the gigantic bail-outs of financial institutions of the last 2-3 years were an integral part of Friedman's conception of risk/crisis/government intervention (see chapter 6). The widespread practice of collectivising losses while keeping profits private, far from being an unintended consequence of unforeseen developments, was at the heart

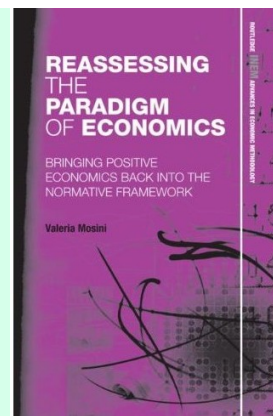
of Friedman's neo-liberalism. In contrast Keynesian economic policies aimed at fostering the real economy, not at rescuing failed financial institutions.

Given your findings, what issues do they raise for economists and they ways they do their work?

This is difficult and I have no intention to try and preach economists what they should do. Perhaps a more curious attitude towards discussion in other fields, for instance the natural sciences, when similarities between those and economics are claimed, might be helpful. But F. Hahn and T. Lawson, among others, relentlessly pointed out that the use of mathematical methods in econ was not sufficient to attribute it 'scientific status'.

What do you think is the most pertinent part of the book?

I now think Chapter 6, which concludes that the NL paradigm has created a trap (globalisation) from which it will be extremely difficult and revolutionary to come out. Take Greece now; even admitting that the sovereign local government wished to share the burden of cuts in an altogether different manner, namely imposing huge taxes on wealth, by the time they did that all capital would have exited Greece nullifying the measure!



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Harvard Economics students protest

Students in Greg Mankiw's Economics 10 introductory economics class walked out on 3 November 2011, sending a letter of protest at what they saw as bias in the course. In an open letter to Professor Mankiw they write:

"As Harvard undergraduates, we enrolled in Economics 10 hoping to gain a broad and introductory foundation of economic theory that would assist us in our various intellectual pursuits and diverse disciplines, which range from Economics, to Government, to Environmental Sciences and Public Policy, and beyond. Instead, we found a course that espouses a specific—and limited—view of economics that we believe perpetuates problematic and inefficient systems of economic inequality in our society today.

A legitimate academic study of economics must include a critical discussion of both the benefits and flaws of different economic simplifying models."

The whole letter is on the RWER blog. You can read it at:

<http://rwer.wordpress.com/2011/11/03/an-open-letter-to-greg-mankiw/#more-6486>

"A legitimate academic study of economics must include a critical discussion of both the benefits and flaws of different economic simplifying models.."

Two quotes...

1) "[T]he master-economist must possess a rare combination of gifts. He must reach a high standard in several different directions and must combine talents not often found together. He must be mathematician, historian, statesman, philosopher—in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future." (Keynes, 1924, p. 322) [thanks to Geoff Harcourt for the pointer]

Keynes, J. M. (1924). Alfred Marshall, 1842-1924. *The Economic Journal*, 34(135), 311-372.

2) "It is almost a commonplace to-day that the era of specialisation has for the time being ended; that the old frontiers have been largely obliterated, and that in the next generation the economist will have to be much more than an economist. Perhaps his primary task will be to view his Economics in relation to all the other so-called social sciences, and thereby to effect a new synthesis." (Gray, 1949, p. 512)

Gray, A. (1949). Economics: Yesterday and To-morrow. *The Economic Journal*, 59(236), 510-530.

Upcoming deadlines!

Political Economy and the Outlook for Capitalism

Joint Conference in Paris
5-8 July 2012

Association for Heterodox Economics (AHE)

French Association of Political Economy/
Association Française D'économie Politique
(FAPE)

International Initiative for Promoting Political Economy (IIPPE)

MORE DETAILS AT:

<http://www.assoekonomiepolitique.org/political-economy-outlook-for-capitalism/>

The World Economics Association Newsletter is published in the UK by the World Economics Association.

Contributions wanted...

Are you interested in contributing to the WEA Newsletter? We are looking to cover a broad range of perspectives and recognise that experiences and issues vary around the world. Submissions are welcome that illustrate this diversity and indicate possibilities. The difference between real world phenomena and theoretical representations is also important.

In general, we welcome short pieces (approx 500 words) highlighting one or two specific points of interest as illustrated in this issue.

Also of particular interest are:

Reports summarising the topics covered in country-specific economics/policy blogs (priority issues, aspects being emphasised, policy approaches considered);

Country specific "media watch" on economic issues. What are the public being told? Who are the spokespeople? Is a diversity of views being presented? Is there any investigative reporting or in-depth analysis?

Email offers on these or other areas to Stuart Birks, k.s.birks@massey.ac.nz