

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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“Economics does not and cannot exist in a vacuum. It is an integral part of a wider reality which is society as a whole. Focusing on growth of the part without reference to its impact on the whole is a formula for social dis-ease.”

Orio Giarini, Garry Jacobs and Ivo Šlaus

<http://www.cadmusjournal.org/article/issue-4/economic-crisis-and-science-economics>

Journal News: *Economic Thought*

The first issue of *Economic Thought*, the new online-based journal of the WEA on history of economic thought, economic history, methodology of economics and philosophy of economics, is out. You can read and download it, free of charge, at <http://et.worldeconomicassociation.org/index>

Here is a summary of the content of the first issue.

Our first two articles are methodological contributions, touching on themes that are close to the interests of the WEA membership. Tony Lawson's *Mathematical Modelling and Ideology in the Economics Academy: competing explanations of the failings of the modern discipline?* develops themes from the author's research in constructing a critical response to the oft-cited claim that mainstream economics is in some sense 'ideological'. Donald Gillies's *Economics and Research Assessment Systems* focusses on the impact of national research assessment systems on the output of academic economists. His conclusions run counter to the conventional wisdom that quantitative measurement and accountability in research produce better results.

Richard van den Berg provides the only purely historical paper in the first issue of *Economic Thought*. His article *Richard Cantillon's Early Monetary Views?* suggests an intriguing reply to the time-honoured question of the relation between Richard Cantillon and David Hume, drawing on the writings of his cousin Philip as evidence. We return to methodological concerns in the fourth article *Different Approaches to the Financial Crisis* in which Sheila Dow connects the theoretical approach adopted by the mainstream to analyse the financial crisis to the perceived failings of that analysis.

The last two articles provide stimulating and critical discussions of the philosophical foundations of economics. Geoffrey Hodgson's *On the Limits of Rational Choice Theory* argues that whether they maximise manifest payoffs or utility, the agents of rational choice models are unlikely to explain real human behaviour. The latter can only be done through the construction of a more sociologically and psychologically grounded theory of human action. In her contribution *An Evolutionary Efficiency Alternative to the Notion of Pareto Efficiency*, Irene van Staveren develops a critique of the mainstream notion of Pareto efficiency. Showing how the normative underpinnings of the latter lead to a static conception of efficiency that cannot cope with the flow of events in actual economies, she proposes a dynamic, evolutionary alternative.

Adam Smith on universities

“The improvements which, in modern times have been made in several different branches of philosophy, have not, the greater part of them, been made in universities, though some, no doubt, have. The greater part of universities have not even been very forward to adopt those improvements after they were made; and several of those learned societies have chosen to remain, for a long time, the sanctuaries in which exploded systems and obsolete prejudices found shelter and protection, after they had been hunted out of every other corner of the world. In general, the richest and best endowed universities have been slowest in adopting those improvements, and the most averse to permit any considerable change in the established plan of education. Those improvements were more easily introduced into some of the poorer universities, in which the teachers, depending upon their reputation for the greater part of their subsistence, were obliged to pay more attention to the current opinions of the world.”

Smith, Adam (2012-05-16). *An Inquiry into the Nature and Causes of the Wealth of Nations* (p. 456). University of Chicago Press. Kindle Edition.

Are you interested in contributing to the WEA Newsletter?

We welcome short pieces highlighting one or two specific points of interest as illustrated in this and past issues. Alternative country perspectives and critical commentary on economic methodology and world views are encouraged.

Email offers to Stuart Birks, k.s.birks@massey.ac.nz

Economics Reservations and Adjustments

Theories are simplified analogies which may provide some insights into the real world. Whenever applying them to real world issues, we should be aware of the simplification and abstraction involved. There are **reservations, adjustments and additions** that should be included in the analysis. This point is illustrated in some writing on economics teaching. Mearman (2007) draws on Knoedler and Underwood (2003) to construct Table 3 of his publication, reproduced below. Each of the ten points highlights an alternative perspective or a possibly unstated restriction in mainstream economics. If only one perspective is presented, it can be seen as the norm, rather than a particular perspective (Fairclough, 1995). No teacher should be presenting a particular viewpoint as definitive, so all approaches, including those that are considered heterodox, should be assessed in this way. You may disagree with some of the listed points, but they show dimensions over which alternative options are available.

Ten Things Every Student Should Learn

Orthodox (Side A)	Heterodox (Side B)
1. Economics is the study of choice under conditions of scarcity.	1. Economics is about the social processes of providing for people's needs, not merely choices and scarcity.
2. Economic actors are motivated by rational self-interest to maximise their satisfaction from consumption (based on a given set of preferences).	2 Both scarcity and wants are socially defined and created.
3. Economics, practised correctly, is a 'positive science' premised upon value-free, objective knowledge. The role of the economist is to engage in the science of 'positive' analysis of the economic processes described above.	3. Economics is not 'value-free' and ideology shapes our analyses and conclusions as economists.
4. The history of economic thought is a specialist subject inessential for the study of contemporary economic theory.	4. The history of economic thought is critical to the study of 'basic principles' of economics.
5. The individual — understood as an entity separated from others — is the principal unit of economic analysis.	5. The individual should be understood, but as complex and connected to others — and as a means to understanding the operation of the whole economy.
6. Economies and markets tend to equilibrium.	6. Although equilibrium can be a useful concept, economies generally do not tend to equilibrium; indeed, there may be no equilibrium to tend to and thus, economics should focus on dynamic processes rather than equilibria.
7. The market values (prices) established in a 'free market' economy are the critical guide to economic efficiency. Anything that 'distorts' free market values reduces efficiency, thus imposing costs on society.	7. Valuation is a social process.
8. Although a free market is believed to be the ideal way to achieve efficiency and maximum social welfare, there are many failures in the market requiring intervention by government.	8. Markets are social institutions which could never work as posited by the orthodox theory. Many of the failures described by orthodoxy are essential features of markets.
9. Distribution of wealth and income rests on marginal production of individuals, determined by their characteristics.	9. Distribution is shaped by membership in groups according to race, gender and class, and the relative power exercised by those groups.
10. The natural world, the source of all energy and materials and the repository for all waste, is not a necessary (complementary) element in production.	10. Ecological literacy (economy—ecology interface, unity between biophysical first principles and economic sustainability) is essential to understanding the economic process.

Fairclough, N. (1995). *Critical discourse analysis: the critical study of language*. London: Longman.
 Knoedler, J. T., & Underwood, D. A. (2003). Teaching the Principles of Economics: A Proposal for a Multi-Paradigmatic Approach. *Journal of Economic Issues*, 37(3), 697-725
 Mearman, A. (2007). Teaching heterodox economics concepts Available from <http://www.economicnetwork.ac.uk/handbook/printable/heterodox.pdf>

What is economics? A parable for our time By John Weeks johnweeks@jweeks.org

Economics is the science that studies human behavior as a relationship between ends and scarce means which have alternative uses.

Lionel Robbins, *Nature and Significance of Economic Science*, 1932

...[M]y lack of emancipation from preconceived ideas showed itself in...the outstanding fault of that work [Treatise on Money], that I failed to deal thoroughly with the effects of changes in the level of output.

J M Keynes, *The General Theory of Employment, Interest and Money*, 1936

A student attends the first class in introductory economics and learns that economics is the study of the allocation of scarce resources to meet unlimited needs. The validity of this definition is so obvious that the student receives no justification or explanation of it. Except for the very rich, the preoccupation of every household is how to use its limited income to meet the unlimited needs of its members. We can borrow in order to consume beyond our current means, but as a result we have less in the future, either for ourselves or our children.

So it is with governments. Because resources are scarce, a country lives beyond its means when its government runs deficits and goes into debt. The debt must be repaid from the scarce resources of the future. This is the euro crisis in a nut shell, populations foolishly allowing their governments to misguide them into believing that a free lunch can be found in budget deficits.

The world would be an easier place if resources were abundant and needs limited, but we must face reality. If we do not, the operations of markets will bring that reality home to us. Markets guide the allocation of those scarce resources to their best use, and going against markets is a mug's game.

It is quite likely that a very large proportion of the adult population of the United States and western Europe accepts this parable of scarce means and unlimited needs. After all, isn't that what population growth and a limited earth add up to? Policies of austerity, for households or governments, are no more than the consumption excesses of human coming home to roost.

No. This scarce means, unlimited needs story is not reality, it is ideological rubbish. **Resources are not scarce and needs are not unlimited. Economics is about the allocation of scarce resources among unlimited needs to the same extent that astronomy is the study of horoscopes.**

The most important resource in any society is the laboring ability of its population. At the end of 2011, one of every nine members of the [eurozone labor force was unemployed](#). With this level of unemployment, we should not be surprised that [over twenty percent of European industrial plant was idle](#). As thousands of

households of unemployed workers lived rough or in charity hostels, 700,000 homes were unoccupied in the United Kingdom (about 3 percent of the housing stock), and 800,000 in Spain (5% of stock). In the United States, over 11 percent of homes stood empty, one in every nine ([but there are measurement issues in the US](#)). In Detroit, with 100,000 people homeless, the local authorities dealt with this abundance of housing by bulldozing neighborhoods (see *Business Insider*, 10 March 2010, ["The Mayor of Detroit's Radical Plan to Bulldoze One Quarter of the City"](#)).

Idle workers, idle factories and offices, and homes standing empty and abandoned. Resources are scarce? If you believe that, do not visit a used car dealership unaccompanied, because it would appear that you are self-destructively credulous.

To put the matter simply, when something is in surplus, it is not scarce. The remote possibility that resources could suffer from a shortage in the future or may have occasionally in the past does not make scarcity economics plausible. If you cannot use all of it, there is no danger of running out of it (rocket science). **In most countries in most years labor and the machinery to employ that labor are not scarce.** The central economic problem in a capitalist society is not how to allocate scarce resources. On the contrary, **the central problem of capitalist society is how to use productively the available resources.** Markets do not provide the solution to that problem.

Surely, the other half of the definition is true, that people's desire to consume is unlimited. Marketing shysters all over the world strive to turn this assertion into fact. It should be viewed very skeptically. If a large number of people were stopped randomly on the street and asked if they wanted to improve the quality of their lives, it is highly likely that the vast majority would answer "yes". To equate or reduce this hope for improvement to an unlimited desire for things that can be bought and sold is absurd and a slander on human nature. A shockingly large proportion of the populations of the most developed countries in the world lives in poverty. Whether or not their "wants are unlimited" is a foolish and reactionary conjecture, because they lack the income or means to the income that would purchase the minimum required for a decent life.

At top of the income and wealth scale, households have the opposite problem. **While austerity reigns for the poor, over-indulgence guides the rich.** How do you spend \$1.3 million dollars a year (average for the those in the top one percent in the United States) or one million pounds (about the UK figure) *in a year*? The rest of us are left to imagine the *angst* of those at the top as they come to 31 December and discover, yet again, income unspent.

What, then, is economics, in contrast to the alchemy of scarce resources?

Economics is the study of the process by which soci-

...Cont from previous page

ety brings its available resources into production, and the distribution of that production among its members.

Once we recognize the obvious, that resources are abundant and we must use public policy to make them scarce, almost every cherished parable of mainstream economics is revealed as rubbish. When labor and other resources are idle all of the following are logically false.

1. "reforming the labor market" by making it easier to fire workers will increase employment;
2. public deficits will reduce private investment;
3. "freer" trade among countries brings benefits to all;
4. increases in the money supply cause inflation; and, above all
5. supply and demand determine prices.

When resources are idle, employment is determined by the level of aggregate demand. Deficit spending brings more resources into employment, it does not redistribute them between the public and private sectors. When labor and machinery are idle, increased imports may replace domestic production and reduce employment. Increase in the money supply, if it has any impact, is to stimulate output. And, most fundamental, when

resources are idle what a company offers for sale is determined by the sales it anticipates (hopes for). Market "supply" and market "demand" are the same thing, and being the same they cannot interact to determine anything.

The economics of scarcity is pernicious foolishness. By contrast, the economics of idle resources addresses reality. It is the same as the difference between alchemy and chemistry, astrology and astronomy, evolution and creationism. Zoology does not investigate unicorns, nor does agronomy analyze the growth of giant bean stalks. The difference between analysis based on scarcity or based on idle resources is, to coin a term, the opposition of al-economics and economics.

It is a scandalous reality that the overwhelming characteristics of most of the history of most capitalist countries have been idleness and waste of resources. That scandal is made all the greater because **the periods when capitalist countries were near full employment they were also at war with each other**. This last reality suggests that the major public policy issue for economics is how to employ all of society's resources without sending people off to kill each other.

Economics and policy objectives

Policy objectives in economics are heavily influenced by concepts of market failure, failing to achieve the "ideal" of perfect competition. There are many reasons to challenge this, not least that the ideal may not be desirable in the real world, and second-best conditions being more complex and generally unknown.

If economists are not to rely on this approach, some alternative measures are needed to determine "good" or "bad" performance. An illustration of this approach can be found in a new short book, *Decline of the USA*, by Edward Fullbrook. There are extracts on the [Quality of Life Indicators section of the RWER blog](#). He uses 65 charts to compare the USA with other OECD countries.

Issues of choice on what should be measured and how will be discussed in a WEA online conference early next year (see p.?? of this Newsletter). There are then additional issues of the uses of these measures to be considered.

In epidemiology, four alternatives have been suggested as bases for comparison in assessing risk of disease. These are *theoretical minimum risk*, *plausible minimum risk*, *feasible minimum risk*, and *cost-effective minimum risk* (Murray & Lopez, 1999). These represent, in turn, the lowest risk imaginable, even if highly unrealistic; the lowest risk that might be considered possible, even if not currently realistic; the lowest risk that has been achieved somewhere, and thus is known to be attainable; and the lowest risk that could be achieved using all cost-effective means available. The economic per-

fect competition "ideal" would roughly parallel the theoretical minimum, while the others reflect the best we might ever expect to achieve, or the best that has been observed elsewhere, or the best that could be currently achieved using approaches that are known to be cost-effective.

The use of indicators, as in country rankings, most closely resembles "feasible minimum risk". It does not consider mutual incompatibilities or tradeoffs over changes when considering more than one measure. We can also see that it fails to consider the costs and benefits of any policies to change performance. This is a major criticism raised against studies estimating cost of illness, or crime, or other major events, where the numbers are of more rhetorical than analytical value. We should probably distinguish between the measure itself and the use to which it may be put. However, the first step in gaining traction for an issue is to have it named and observed. The choice of measures has political significance, although some may be in such common use as to be uncritically accepted as defining reality. This is something to remember when using conventional economics measures such as GDP, unemployment and inflation.

Murray, C. J. L., & Lopez, A. D. (1999). On the Comparable Quantification of Health Risks: Lessons from the Global Burden of Disease Study. *Epidemiology*, 10(5), 594-605.

Sustainability—Missing points in the sustainability dialogue

Online WEA conference September 24 to October 21, 2012

The submission of papers for the second WEA online conference is open. We invite WEA members to contribute to our discussion. The framework of our conference is briefly described below.

Sustainability deals with multifaceted problems that have increased over time, despite attempts to provide solutions, most dominantly, within neoclassical economics circles. Given the multidimensional nature of current crises that sustainability faces – including not only the financial domain, but also non-market issues – alternative perspectives need to be articulated in order to supplement the sustainability dialogue and complement mainstream economics perspectives and policy advice.

This conference encourages answers from a broad range of perspectives and seeks to foster thoughtful, pluralistic conversation that focuses mostly on missing points in the sustainability debate, such as the following:

Neoclassical economics appears to be the current

main “driver” for analysis and policies regarding unsustainable development. What positive and negative lessons can we learn from this? What can we learn from analysis and policy recommendations from alternative perspectives.

How can ideological issues be clarified in the sustainability dialogue? How should we approach the normative components of sustainability?

How can the public and private sectors interact to bring about sustainable development?

How can we initiate a debate about the functioning of democracy and political-economic systems in relation to the present challenge of sustainable development?

Should one as an economist continue to think of “value” in monetary terms or is this “monetary reductionism” part of the problems faced in the sustainability debate?

Country case studies on sustainable development both in terms of analysis and policies.

Submissions are invited now

Despite the list of presentation topics, we welcome also contributions from non-economists interested in the economic, social, and political issues related to sustainability.

The deadline for submitting papers is September 1, 2012

Papers should be no longer than 10,000 words. For other details regarding guidelines for manuscripts please see:

<http://sustainabilityconference2012.worldeconomicassociation.org/submit-a-paper/>

Papers will be made available for comments from September 24 to October 21, 2012.

In the spirit of collective and fruitful discussion, contributors are expected to respond to comments.

Invitation to participate in the conference discussion as a commentator or audience.

All WEA members interested in the conference theme, but not planning to submit a paper, are encouraged to register for the Sustainability Conference by simply leaving an e-mail address, and are invited to **participate in the discussion, which will take place from September 24 to October 21, 2012.**

Please go to the conference website to register (no fee required):

<http://sustainabilityconference2012.worldeconomicassociation.org/>

You will be notified about important dates and will be kept informed about the on-going discussion.

There will be several options available regarding what information you want to receive about the conference, presentations, and new comments.

Please sign up for the conference and encourage others to participate in this event.

The conference leader is **Peter Söderbaum**, and the co-leader is **Małgorzata Dereniowska**.

If you have any questions, please do not hesitate to **contact Peter Söderbaum** via the conference email address wea.sustainability2012@gmail.com

Follow up piece: There was a piece, “Doubtful significance”, by Peter Swann on p.6 of the [April 2012 Newsletter](#). Peter now has a related piece available for download, [A Clear Case: Why is the signal to noise ratio so much higher in case studies than in econometrics?](#)

Amartya Sen

...is featured in an episode of the BBC radio series, [“The new Elizabethans”](#), broadcast on 17 August 2012 with this description: *“Amartya Sen the professor and Nobel-winning laureate known as the Mother Theresa of economics for his work understanding and fighting the causes of poverty.”* [An MP3 of the 12 minute piece is available here](#) (Ctrl click to play, or right click and “save as”)

WEA interview on ontology with Tony Lawson in Paris

Q1: You have placed a lot of emphasis on ontology in economics. Is this just an abstract philosophical concept, or is it relevant for applied economists?

TL: Yes I have emphasised ontology, especially social ontology. By ontology I simply mean of course the study of the nature of being; so social ontology is the study of the nature of social being or social reality. Ontology certainly deals in abstractions, though it itself is a concrete process of study, but I do not see dealing in abstractions and doing applied economics as either/or issues.

Fundamental here is the question of what we mean by abstraction. And this is important because of the way the term is used and abused in modern economics. To abstract is to leave something out of 'view', so there is always something (more) concrete that is abstracted from. If we talk and I focus on your face as you are talking then I am abstracting from, say, your feet or shoes or heart and kidneys, etc., or better from the totality that is you. But in so doing I don't suppose that these other features don't exist. Nor do I treat them as not existing, as though your face can be imagined as existing in isolation from the rest of you. There is no reason at all that abstraction has to lead to constructions that are knowingly inaccurate or fictitious. It's about emphasis and focus. We can't think without abstractions.

Of course abstraction is involved in fiction construction and representation too. If I am focussing on Santa's beard I am abstracting from the totality of this (I am assuming) fictitious construction that is Santa. But abstraction and fiction are by no means the same and the goal of explanatory research has to be to use abstraction in the context of realistic theorising.

The big mistake or deceit of modern economists is to misrepresent abstraction as merely the construction of fiction, in an attempt to justify the use of the latter. Specifically modern economists regularly assume that use of the term abstraction allows them either 1) to treat features of reality on which they focus *as if* somehow physically isolated from all others; or/and 2) to distort those features that are in focus. So, for example, to theoretically treat human beings as isolated atoms that possess perfect foresight or rational expectations is to construct pure fiction. It is just misleading to 'justify' this fiction by calling it an abstraction.

As I say, we cannot think without abstractions, and so, returning to your question, we cannot do applied economics without it either. I'm guessing that your question is really along the lines of 'can ontology help with or make a difference to applied economics?' My response so far is that there is nothing in the fact that

ontology deals in abstractions that necessarily prevents it from doing so.

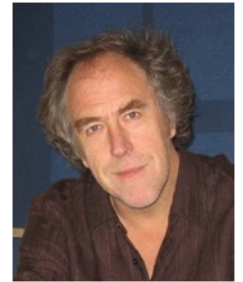
But yes my whole point of emphasising ontology is to provide a case for doing economics, including applied economics, differently. In truth ontology is practised by us all. If we act differently when we find we are confronted by, say, a small bird, a snake, a lion, or a bull, we are doing ontology. We are weighing up the natures of any such creature and acting accordingly. If when faced with such tasks as painting a wall, preparing or eating a meal, cutting the grass, or cleaning a mess, we fashion the choice of tools in each case to the nature of the object addressed, we are again doing ontology. We are weighing up the nature of the objects or situations that confront us and choosing methods accordingly.

I'm merely arguing that in social science, including economics, we should take account the nature of social reality in fashioning methods appropriate to exploring specific aspects of it. The problem of modern economics is that methods are determined *a priori* without consideration of the nature of the task. Whatever the question or object of analysis, mainstream economists insist in advance that certain sorts of methods of mathematical modelling are always the appropriate tools.

I've shown many times that this is why modern economics is in such bad shape. The intellectual crisis of the discipline didn't start with the most recent crises in the economy; the latter just made more people aware of the intellectual failings of the discipline. Ontology indicates conditions that methods must be tailored to meet. This is a longish story, but not a complex one, and reported on variously elsewhere. It turns out that appropriate methods for social analysis are quite different to those that economists usually consider. I have focussed on those that are relevant for applied economics in particular in a recent article in the CJE (Lawson, 2009).

Q2: What do you mean by atomism and closed systems? How do these categories figure in your critique of mainstream economics?

TL: OK now you are asking for details of ontological argument. Given the modern emphasis on mathematical modelling it is important to determine the conditions in which such tools are appropriate or useful. In other words we need to uncover the ontological presuppositions involved in the insistence that mathematical methods of a certain sort be everywhere employed. The first thing to note is that all these mathematical methods that economists use presuppose event regularities or correlations. This makes modern economics a form of deductivism. A closed system in this context just means any situation in which an event regularity



abstraction and fiction are by no means the same and the goal of explanatory research has to be to use abstraction in the context of realistic theorising.

occurs. Deductivism is a form of explanation that requires event regularities. Now event regularities can just be assumed to hold, even if they cannot be theorised, and some econometricians do just that and dedicate their time to trying to uncover them. But most economists want to theorise in economic terms as well. But clearly they must do so in terms that guarantee event regularity results. The way to do this is to formulate theories in terms of isolated atoms. By an atom I just mean a factor that has the same independent effect whatever the context. Typically human individuals are portrayed as the atoms in question, though there is nothing essential about this. Notice too that most debates about the nature of rationality are beside the point. Mainstream modellers just need to fix the actions of the individual of their analyses to render them atomistic, i.e., to fix their responses to given conditions. It is this implausible fixing of actions that tends to be expressed though, or is the task of, any rationality axiom. But in truth any old specification will do, including fixed rule or algorithm following as in, say, agent based modelling; the precise assumption used to achieve this matters little. Once some such axiom or assumption-fixing behaviour is made economists can predict/deduce what the factor in question will do if stimulated. Finally the specification in this way of what any such atom does in given conditions allows the prediction activities of economists ONLY if nothing is allowed to counteract the actions of the atoms of analysis. Hence these atoms must additionally be assumed to act in isolation. It is easy to show that this ontology of closed systems of isolated atoms characterises all of the substantive theorising of mainstream economists.

It is also easy enough to show that the real world, the social reality in which we actually live, is of a nature that is anything but a set of closed systems of isolated atoms (see Lawson, 1997, 2003)

Q3: If your critique means that we have real problems with current mainstream approaches, how should they be addressed?

TL: Basically we should elaborate the real nature of social reality and tailor our methods to that nature. This is a long story that I have elaborated upon over and over again (again see Lawson, 1997, 2003). All I would add here is that your use of the phrase “current mainstream approaches” could be misleading. The defining feature of modern mainstream economics, as I see it, is its *insistence* on methods of mathematical modelling. It is this dogmatism that both defines the mainstream and is the problem. I see nothing wrong with individual economists experimenting with mathematical methods here and there in the hope that in the contexts of analysis, the relevant conditions hold. The mainstream does not own the methods or approaches they employ any more than they own mathematics. There is nothing wrong with mathematical methods *per se* only with the manner in which they are used. The problem of the mainstream is one of application of methods in inappropriate conditions. Mainstream economists insist that their

mathematical methods be applied to all problems. They fail to differentiate the conditions of legitimate and illegitimate application. So ultimately the failure is one of ontological neglect, no doubt grounded in a cultural-ideological presupposition that mathematics is somehow necessary to all scientific activity, understanding and rigour. In this they are just misguided.

Q4: What problems, if any, do you see with alternative heterodox perspectives on economics?

TL: Well I see a lot that is good about the heterodox traditions, but you ask me about problems. Let me mention two. They concern standards and tendencies of some to exclusivity or gate-keeping.

On the first I would like to repeat what I said at opening plenary. I think we all need to raise our game, to improve standards. When I started out I was surprised that different economists just presented different models. One says “here is my consumption function” another says “here is mine”, and so on. In this there was little attempt to compare, replicate, progress etc. And this orientation seems to characterise much of heterodoxy. ‘Here’s my conception of X’, ‘here is mine’, ‘here is mine’, but with little attempt to resolve differences, explain tensions, and so on.

I am not suggesting that we provide more literature surveys, but rather that we spend more time engaging and seeking to explain and resolve puzzles and contradictions etc. And I do emphasise that we need to spend time on things. Look at the natural sciences. As I was travelling to Paris I think they were expecting to announce at CERN that they had identified a Higgs Boson particle. Whether or not this is so the point is they have long been searching for it. According to the most explanatory powerful theory of particles and their interactions, the masses of all particles are zero. Yet mass seems to exist. As a solution to this problem Peter Higgs hypothesised that space is permeated by a field, a bit like an electromagnetic field, which particles travel through. As they do they acquire the appearance of mass, a bit like we appear to get heavier (and are slowed down) if we run into the sea. The greater the interaction of the particles with the field the more apparent mass they have. So the existence of the field, the Higgs field, is central to this explanation of the appearance of mass. Quantum theory tells us that all fields have particles associated with them. So if the Higgs field exists there must be a particle associated with it; this is the Higgs boson. So the search has been on to track it down. If I remember rightly Higgs first proposed this theory in the mid 1960s.

Now the foregoing summary may not be quite right, and the Higgs boson may not actually have been found; I am a bit out of touch in Paris. But my point is that science progresses and in doing so takes as long as it takes; they have been searching for the Higgs boson for nearly 50 years. Compare that with the largely unconnected, non-developmental, non-engaging atomistic orientation of much of modern economics, including I am afraid much produced with heterodoxy. Of course there are

notable exceptions. And the exceptions certainly include the adopted figureheads of heterodoxy. In Marx, Veblen, Keynes, Hayek etc., we find projects unfolding over life-times, mostly through engagement with alternative contributors. Today however, it is all very short term, and disconnected. Anomalies abound, but worse are tolerated and unaddressed. I think Richard Lipsey somewhere observes that the level of anomalies is such that they would be regarded as a scandal in any other discipline.¹

I'm aware, of course, of the pressures on most of us to conform in order to survive. Yes it is easy for me to talk, because I have tenure and am relatively free of these pressures. I understand that publishing lots of different unconnected models designed just to pass the latest chi-square tests or whatever brings tenure and/or promotion; that a preparedness to provide quick analyses that support a particular perspective on policy is what often secures the policy oriented funding in the first place.

But at least for a forum like this one in Paris², where there are nearly 700 heterodox economists, we can seek to be serious in our papers, to be respectful both to each other as audience members and also to our subject-matters. We don't need to show how clever we all are; let us take the capabilities of each other as givens. What is needed, yet can be lacking, is real engagement and debate over the nature of the social world and how it works, a progression of the discipline. Instead we allow features like numbers of publications, citations, rankings of journals in which we publish, and so forth to dominate the manner in which we do things. This all results in, or is a manifestation of, a dumbing down of the discipline. It is anti-intellectual. Yes it is the path of the mainstream. But the whole point of heterodoxy I assume is to distance ourselves from mainstream practices that can clearly be seen to be indefensible. I am sorry if this sounds heavy. And of course I'm saying that I must raise my standards as much as anyone else. But I think it is gatherings like this that can help us; and it is in gatherings like this that we can hopefully be allowed to try. I am hopeful that we can draw strength from each other, and connect with each others' research in serious and respectful ways. Up to a point we already do; some contributors especially. But I feel that many of us could do so much better.

What is needed, yet can be lacking, is real engagement and debate over the nature of the social world and how it works

¹ Editor's note (further elaboration from Tony): What Lipsey actually wrote is: "...anomalies, particularly those that cut across the sub-disciplines and that can be studied with various technical levels of sophistication, are tolerated on a scale that would be impossible in most natural sciences -- and would be regarded as a scandal if they were" (Lipsey, R. G., 2001, p.173)

² Ed: [Political economy and the outlook for capitalism](#)

The second problem I have in mind regarding the heterodoxy, and I repeat that I'm emphasising problems only because you ask me to, is a tendency for some groups to semi-professionalise themselves and be exclusive, to establish heterodox, methodology, and history thought journals, that publish only the right people, and – worst of all - endeavour to make sure that even citations/references to the 'wrong' sort of heterodox etc contributors are dropped/excluded. I am not going to mention names. But I suspect those outlets etc., to which I refer will be recognised (it is easy enough to appreciate likely exclusions etc., by examining the reference lists of papers that are included). Again I am lucky enough to not suffer from this personally, no doubt in large part because I have been around for so long. But I am far too often meeting scholars, especially younger ones, passing through Cambridge or wherever, or receiving e-mails from them, mentioning that they felt excluded at such and such conferences because they professed an interest in (heterodox) group X or topic Y, or that they were asked to remove all references to (heterodox) project Z in order for their paper to be accepted in some journal, etc. Again this is a terrible example of anti-intellectualism. Actually it will be obvious, because scholars relay their criticisms to me, that one of the projects that sometimes gets treated in this anti-intellectual way is critical realism. But it is far from being alone or the most badly treated.

Of course I am not suggesting that we must all agree with each other; or that everything deserves publication; only that we engage and encourage engagement, that we don't exclude on non-intellectual grounds. I recognise that resources including journal space are limited; heterodox ones especially. That is why I believe that heterodox journals should not fill themselves with the sort of mathematical exercises that can get into, and indeed are the sole content of, mainstream journals. But I certainly think heterodox journals should be open to, say, mainstream contributors who wish to argue that the current emphasis and insistence on mathematical modelling is entirely appropriate. The problem here, of course, is that mainstream economists do not seem willing to argue a case; they merely take it as given that mathematical tools are appropriate. And they thereby, and in this manner, exclude all alternatives. My worry is that certain heterodox and methodological journals sometimes act in similar anti-intellectual ways to other heterodox views with which they feel uncomfortable or in competition or whatever.

Still I hope I am wrong or at least overstating the problem here. Let me in any case finish on a positive note with some counter examples to these tendencies. The first is precisely this conference. It is quite wonderful and almost unique to experience three different major organisations, the *International Initiative for Promoting Political Economy* (IIPPE), the *Association for Heterodox Economics* (AHE), and the *French Political Economy Association* (FAPE), coming together to organise a conference jointly, with streams open to all feasi-

ble sorts of contributions. I am really happy to be here and support it all. I think the organisers, especially our French colleagues, have achieved something very special. My understanding is that, as I already mentioned, present at this conference are nearly 700 participants; I think too people have come from about 50 countries and all continents. That is brilliant.

The second positive feature I would like to emphasise is the launch of the pluralistic World Economics Association (WEA), and its various activities, not least its open forum journals. To the latter everyone can submit papers, observe the submission of papers by others, observe in turn the feedback received from referees and any and all others wishing to make an input, engage with any of the latter, all leading to final revi-

sions, and so on. Such an open process appears necessarily free from some of the concerns I raised earlier. The whole thing seems designed to be truly pluralistic. I do so hope these sorts of developments continue, and are widely recognised and supported.

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Spain—economics or clichés?

What is the truth about the Spanish economy? In 2010, a [BBC video](#) combined two stereotypes, flamenco dancers and economic boom and bust, when portraying one of the poorest areas in Spain.¹ When the reporter asks a woman in a job centre about her opinion of the current crisis, her reply is translated to say that this woman has a big family who can help them, but she is more worried about her husband and sometimes can't sleep at night. Only Spanish speakers can hear her actual words in the background, which are surprisingly far more optimistic: "Pero yo sé, por ejemplo, si no trabajo de una cosa, voy a trabajar de otra" (*But I know, for example, that if I don't work in one sector, I will find work in another*).

More recently graphics on a BBC website, "[Spain in numbers](#)", showed some selected facts about the size of the Spanish economy, the large drop in house prices, and the high levels of unemployment.² These could be seen as good enough material for a serious debate about Spain. Yet, a debate can only happen when there is contrasting data and a complex problem to tackle. As might perhaps be expected, news media coverage of the financial crisis has been quite basic: there are good guys and bad guys; Mediterranean countries misbehave; therefore, Spain is in a mess. The only important thing to remember is to stick to this predetermined storyline. And then, only then, you choose your economic data accordingly. As Bourdieu noted, the immediate and passing spectacle of the gross and catastrophic supersedes in contemporary television the function of accurate information and analysis. If we add peer pressure among journalists and fierce competition between media companies, we end up with a system of what Bourdieu calls fast-thinkers, those who lacking the time and resources fall into the trap of writing in a hurry with inherited clichés and ideas.³

Other facts could have been included: Spanish sovereign debt as a percentage of GDP is actually lower than that of the United Kingdom and Germany. According to *Eurostat*, it is 68.5% in Spain versus 85.7% in the UK and

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81.2% in Germany. My students in Spanish Business Environments are used to cataclysmic predictions. Consequently they are surprised when they hear reasons (albeit shrinking) for optimism. Consider results of Spanish multinationals such as *Inditex*, a fashion group. After Q1 in 2012, they reported a 15% annual rise in sales. Zara, its flagship label, has become the largest clothing retailer in the world ahead of the American *GAP*. At a deeper level, the common Spanish language makes for natural markets in Latin America for companies such as *Endesa* and *Telefónica*. While becoming harder to find, there are still data to suggest that the Spanish economy is stronger than widely perceived. One of the optimists, William Chislett, economic author and former correspondent of *The Times* in Spain and the *Financial Times* in Mexico, has produced a list of Spanish multinationals with the largest global market positions in a variety of sectors from wedding dresses to renewable energy.⁴ Out of the top five global companies in development and management of transportation infrastructure, three are Spanish. Ironically, even Spanish leading banks, mainly *Santander* and *BBVA*, have been described as the very best in the world by *The Economist* and have received prestigious prizes by *Euromoney* (best global bank for *Santander*, and best in Latin America for *BBVA*).⁵

But business is not the same as macroeconomics. The Spanish deficit is stubbornly difficult to manage due to decentralisation, while the prospects for employment are bleak. The Spanish regions of Valencia, Murcia and Catalunya are in deep trouble with their public debt, just as is Sicily.⁶ Perhaps because of the complicated nature of the constitutional relationship between regions and central governments, little is said about this. The debate could "risk" becoming an interesting multi-



faceted comparison between regions, European countries and the EU on the one hand, and the lessons which can be drawn from federalism, California and the USA on the other.⁷

Neither catastrophic media sound bites nor subterranean optimism seems to offer satisfying answers about the economic mess. If the media is of no help in this situation, economists have not been able to agree on the roots of the problem either. The IMF, the European Commission and the two Spanish governments of the last four years are confident that getting structural reforms right (i.e. austerity) would solve the imbalances, the machinery will start up again in the medium term and unemployment would be solved. They have clearly not looked at the economic history of Spain for the last twenty years. The Spanish *indignados* would largely disagree with them too, accustomed as they are to political corruption and the rise in social inequality. Others, such as Paul Krugman, blame the “prison” which the Euro has become for Spain.⁸ But could it be that the problem about the Spanish economy does not lie with Spain?

Spanish politics can be surreal at times. When the negotiations about the bail-out for the Spanish banks started, Joaquín Almunia, a Spanish socialist politician and a member of the European Commission, said that perhaps it would be easier for some Spanish banks to go into liquidation than to keep propping them up with taxpayer’s money. It didn’t take long for the conservative Spanish government to ask for his resignation on the basis of “honour”. Mr. Almunia works for the European Commission and was doing his job. However, he is expected to be a gentleman loyal to the banks of his country above all else. This quarrel would rival a duel in a seventeenth-century play from the Spanish Golden Age, and is cause for concern about current Spanish politics.

This idea that honour is somehow more important than policy making, transparency and accountability has also led the current conservative government to oppose judicial investigations against chief executives of financial institutions. *Bankia*, the fourth largest bank in Spain, had Rodrigo Rato, a former conservative economic minister, as its first president. Nonetheless, now that its shares have dropped in value more than 80% since flotation, a judicial investigation has begun against him and other executives.

The financial institutions which are now in serious trouble are mostly the banks which emerged out of reforms started by the previous government. They were all *Cajas de Ahorros*, something between a savings bank and a British building society although controlled to a large extent by regional governments. The fiasco of banks such as *Caixanova*, *Caixa Galicia* and *Bankia* has brought to light some of the darkest elements of the Spanish surreal nightmare, from chief executives with a history of collaboration with the fascist Francoist regime to complex financial products sold to illiterate

people in rural NW Spain on contracts signed only with a fingerprint. The most surreal element is the super-market cashier sitting in the executive board of *CAM*, a former *Caja de Ahorros*.

But the problems cannot all be put down to what happens within Spain. Before becoming CEO of *Bankia*, Rodrigo Rato was the managing director of the International Monetary Fund (2004-7). The current economic minister is Luis de Guindos, who used to work as a top executive in Europe for *Lehmann Brothers* until it was declared bankrupt in 2008. In principle, the LIBOR (and potentially also the Euribor) scandal is no different to the mis-selling of financial products to illiterate people by the Spanish *Cajas*.

Just as surrealism was an international aesthetic phenomenon, the Spanish crisis is more than flamenco dancers and problems with sovereign debt. The problem of the Spanish crisis has to be placed in the context of a global capitalist crisis. Unregulated capital markets and greed in top global financial institutions are not a characteristic of just one single country.

Perplexity is not just a characteristic of bad media reporting. It is the symptom of our times. In 1936, when the Civil War started, the fate of Spain was by and large perceived in Europe as a premonitory sign of what was yet to come for the continent. Unfortunately, it seems that history keeps repeating itself, only this time at a larger scale.

¹ BBC News [Economy woes for the people of Cadiz](#). 2010. [Accessed: July 2012]

² BBC News [Spain in Numbers](#). 2012. [Accessed: July 2012]

³ Bourdieu, Pierre. *On Television*. New York: The New Press. 1998, p. 28-9.

⁴ Chislett, W. [Inside Spain](#). Real Instituto Elcano. July 2012: 83, 2. [Accessed: July 2012]

⁵ The Economist. [Dispatches from the Hothouse](#). May 19th 2012. [Accessed: July 2012]

⁶ Donadio, Rachel. [Sicily's Fiscal Problems Threaten to Swamp Italy](#). The New York Times. July 22nd 2012. [Accessed July 2012]

⁷ The Economist. [Not quite Greek, but still weak](#). June 16th 2012. [Accessed: July 2012]

⁸ Already since 2010, Krugman has been arguing that the constraints of the euro are too much for Spain. See his article [The Spanish Prisoner](#). The New York Times. November 28th 2010. He has been insisting that the euro will not work since then. For an example see [The EuroTARP Cometh](#). The New York Times. June 10th 2012. [Accessed July 2012].

Follow up piece There was a piece, “Doubtful significance”, by Peter Swann on p.6 of the [April 2012 Newsletter](#). Peter now has a related piece available for download, [A Clear Case: Why is the signal to noise ratio so much higher in case studies than in econometrics?](#)

A WEA conference: Rethinking Financial Markets

The WEA is holding a digital conference,
**Rethinking Financial Markets:
 Social Capitalism, Economies of Money,
 and Custodial Regulation**

November 1st to 30th

Submissions should be made by October 15th.

In keeping with WEAs mission, the conference is open to all, and already has global participation. Contributors come from countries ranging from Norway to Iran to Australia to Brazil. Participants include economists and central banking scholars Charles Goodhart, Rosa Lastra, and Perry Mehrling, anthropologists Doug Holmes and Annelise Riles, historian Jack Schlegel, and many others.

As with other WEA conferences, contributors are participating through a dedicated website, which also provides details about the substance, structure and timing of the conference. See <http://rfconference2012.worldeconomicssociation.org/>.

We believe this is a good time to step back and consider what contemporary societies reasonably might expect of financial markets. Surely recent events have demonstrated that “the efficient allocation of capital” is an insufficient norm for thinking about the role and governance of finance. Consider, in this regard, continuing weakness in the global economy, the Eurozone debacle, rising inequality, persistent unemployment, and general malaise in the United States, as well as what has come to seem an unending stream of institutional scandals, lately LIBOR, JP Morgan, MF Global, and HSBC – and these are “advanced” financial markets. The situation is of course different – if not necessarily

better – in the developing world. Many areas are starved for the capital needed to develop. Others have access to capital, but limited to the development of commodities markets, meaning that civil society broadly construed is undercapitalized. Meanwhile, burgeoning middle classes in places like China and India require ever more powerful financial markets to secure reasonable social demands for health care, education and retirement, in spite of substantial inflationary pressures. At the same time, entanglements of fiscal, monetary, and trade policy heighten international tensions . . .

One may go on, but the point is made. Financial markets are critical to modern politics, and yet, after the drama of 2008-09, it is clear that our political understanding of financial markets is thin at best. So what have we learned from the recent and ongoing crises, and what may be done under current conditions?

In order to keep discussion as focused and concrete as possible, submissions are solicited under the following general rubrics.

1. Recent history and the art of the possible
2. Fiscal and monetary policy
3. Tax, capital formation, and inequality
4. Financial instruments
5. Financial markets (exchanges)
6. Financial institutions
7. Custodial relations
8. Labor markets and social capitalism

In keeping with the goal of fostering exchange across perspectives, papers may be relatively short, and clarity and accessibility of thought are strongly desired.

-- David A. Westbrook

A WEA conference on: The political economy of economic metrics

Are we looking at the right metrics in the right way?

The track record of economists when it comes to predicting, anticipating or even analysing the consequences of the Great Financial Crisis is not impeccable. To a not inconsiderable extent this might be due to the statistics we use: how do we use them, what do they tell us? Are we using them in the right way? Are they defined and measured in the right way? Do economists understand what economic statisticians are doing? Such questions will be the focus of the first WEA conference in 2013.

The general aim of the conference is to explore whether economics and society would be served by a more critical and alternative(s) ways of looking at economic data. It is relevant to start from the observation that, in economics, there is a division of labour when it

comes to estimating the economy on one hand and analysing the economy on the other hand. Academic economists are sometimes not even aware of the work of statisticians – I mean: whoever has read the SNA (the *what?*)? During the education of economists little attention is paid to what in other sciences sometimes is called ‘materials and methods’: the procedure and the information needed to get reliable data such as the registers of companies, the elaborate lists of goods and services which are traded internationally or the lists of goods and services used to calculate the consumer price index? Teachers of economics at universities sometimes even explicitly show and voice their disdain for such work. And one cannot but be appalled by the lack of precision of many theorists when it comes to defining such variables as ‘the price level’ or

'households' or even 'money'.

But there is of course another problem, potentially an even more dangerous one: we do not see what we do not measure. A case in point is 'land', or more precisely 'non-produced assets' such as 'space', oil or even *clean* air, water and land. Though these 'non-produced assets' were for quite some time a staple of economics (and they still are, in the national accounts, according to the SNA guidelines), the ascendance of neo-classical economics, with its 'Labour and Capital' dichotomy, made them largely disappear from economic discourse. This prevents us from seeing the connection between rent income and the ownership of these assets; it also leads to overstatement of productivity increases.¹ 'Unemployment' is another case in point when it comes to modern neo-classical economics.²

Though statisticians use a concept of money which explicitly shows that it is the Siamese twin of 'debt' – one cannot find this in standard textbooks. Do we really measure the important things?³ Or are we lead astray by a combination of lack of knowledge about what the statistics really show as well as lack of measurement of the important things in life? And we should of course not forget about the political economy of economic metrics. Enormous amounts of money are spent on measuring GDP, employment, wages, unemployment, inflation, consumer and producer confidence, debt, money, current accounts, interest rates, the price level and whatever. Some of these metrics (or indicators derived from them), like government debt as a percentage of GDP, are used to call entire countries to account. Who wants these data, who pays for it, who decides about the definitions? Why, for instance, aren't house prices included in the estimate of inflation used by the European Central Bank (ECB)? Why was it only very recently that the broad U-6 variable of unemployment has become available for the entire EU? And should we look at metrics from a household perspective instead of the perspective of the state? Why does the ECB use a definition of money based upon double entry accounting – while textbooks only look at money as part the asset side of the balance of households and companies? Questions such as these will be discussed in the World Economics Association internet conference on **"The political economy of economic metrics"**. Special attention will be given to interrelationship of the concept of a variable (what *is* 'labour', what *is* 'money',

what *is* 'income'), the definition of a variable (how do we define 'labour', or 'money' or 'income'), the 'operationalisation' of a variable (how do we change a general definition, like for instance 'forced labour', into a measurable concept) and actual measurement (how do 'we' estimate 'forced labour').

In the forthcoming conference of the World Economics Association special attention will be given to:

The National Accounts: income, production and expenditure, balance sheets, the flow of funds and the interrelation between these variables

Money (and debt)

Labour

Prices, the price level and inflation

Specialists in the field will write lead papers about 'the present state of the art' in thinking about the concepts, definitions, operationalisation and measurement and about the (financing of the) process of gathering the data.

WEA members are invited to register for the conference (a specific page on the web site will be available soon), to contribute papers and to participate in the discussion.

Deadline for papers: 15th January 2013

Discussion Forum: From 5th February to 5th March 2013

Contributors are encouraged to read and take into account the "Report by the Commission on the Measurement of Economic Performance and Social Progress" of Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi et al.: <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>

Merijn Knibbe

Conference Leader

¹ Gaffney, M. and F. Harrison (1994), *The corruption of economics. Neo classical economics as a stratagem against Henry George*. London.

² Consider the statement of three influential neo-classical economists (one of them is the chief economist of the ECB) about the state of the neo-classical art and the neo-classical model used by the ECB: "one of the shortcomings of these models is the lack of a reference to unemployment. This is unfortunate because unemployment is an important indicator of aggregate resource utilization and the central focus of the policy debate". Gali, J., F. Smets and R. Wouters, "Unemployment in an estimated New-Keynesian model", <http://www.econ.cam.ac.uk/keynes-conf-2011/papers/Unemployment-in-an-Estimated-New-Keynesian-Model.pdf>.

³ See Schmitt J and Jones J, 2012 [Long-Term Hardship in the Labor Market](#), Washington: CEPR

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

1st World Keynes Conference
Izmir University of Economics, Izmir/Turkey
26.- 29. June 2013
"Attacking the Citadel: Making Economics Fit for Purpose"
Proposal deadline: November 30, 2012
<http://ekolider.ieu.edu.tr/keynes/>