

# 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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## 2013: a busy year for WEA Conferences

Four online conferences were held this year:

### THE POLITICAL ECONOMY OF ECONOMIC METRICS

28th January – 14th March 2013

### THE ECONOMICS CURRICULUM: TOWARDS A RADICAL REFORMATION

5th May – 14th June 2013

### INEQUALITIES IN ASIA

27th May – 12th July 2013

### NEOLIBERALISM IN TURKEY: A BALANCE SHEET OF THREE DECADES

28th October – 16th December 2013

More are planned for 2014, with additional suggestions welcome. The WEA now has an established structure for running successful online conferences, along with opportunities for subsequent publication of papers. This is in no small part due to the efforts of **Grazia letto-Gillies**, who has made an invaluable contribution. As the calendar year comes to a close, I am pleased to publicly acknowledge the value of her work. It is greatly appreciated by many people. Thank you Grazia.

Stuart Birks (Newsletter editor)

### Past Newsletters available at:

<http://www.worldeconomicssociation.org/newsletters/>

### WEA young economists

**Facebook group**  
(now 1100+ members)

## How framing shapes our perceptions...

A UNDP-IPC one pager, **South-South Cooperation and Inclusive Growth**, by Ryan Higgitt, Queen's University, Kingston and Mazharul Islam, Diakonia Bangladesh, stresses real world diversity. One-size-fits-all does not work. We should recognise the constraints that arise from common perspectives. There is value in:

**“strategies which, in relation to essentialism, are much more nuanced, including embracing alternative knowledge systems...that dislocate the hegemonic Euro-American perspective.”**

## WEA Pedagogy Blog

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

## WEA National Chapters

**Get involved!**  
**Is your country listed?**  
**Become a contact!**  
**Add a link or post!**

**World Economics  
Association**  
Voluntary annual  
membership fees:

<http://www.worldeconomicssociation.org/membership/annualfees>

## Online Conference: Is more inclusive and sustainable development possible in Brazil?

### World Economics Association Online Conference

**Leading team: Prof. Dr. Maria Alejandra Madi and Prof. Dr. Marcelo Milan**

### Introduction: Main currents in Brazilian socio-economic development

Historically, changes in the orientation and the scope of the Brazilian government interventions have been associated with deep economic and social transformations. In the 1960s and 1970s, the economic outcomes were decisively affected by militarism that turned out to reinforce economic growth with social exclusion. It also led to increasing productive internationalization where key agents have been the transnational corporations from many developed countries. However, the so-called Brazilian model of development led to further concentration of income, wealth, and land ownership. As Celso Furtado pointed out, it was a false modernization as it benefited only a minority reinforcing the structural heterogeneity and inequality. After the 1970s, questions have been raised about the pattern of Brazilian industrialization that led to failed expectations. Those millions of Brazilians that had hoped for a fair and sustainable economy and society were disappointed by stagnant incomes and higher inflation.

Since the 1990s, Brazil has been subject to a new dependency where financial capital tends to dominate social and economic dynamics in a historical setting where the redefinition of the elites is part of the overall financialization process. Consequently, as of the early 2000s, Brazil has been considered as a promising emerging economy by global institutions and investors. From 2000 to 2008, the expansion of the BRICS - Brazil, Russia, India, China and South Africa—benefited from the combined commodity and credit cycle. During this period, Brazil experienced high rates of economic growth and was able to promote the inclusion of large portions of the population in the financial, labor and goods markets. As a result, the economy has experienced near full employment during the two years prior to the financial crisis. Income inequality dropped and inflation was kept under control. Interest rates trended downward. However, external imbalances grew and the manufacturing share of output declined while exports have been mainly driven by commodities. In this setting, the newly discovered underwater oil reserves are a major opportunity and challenge: whereas they can provide funds for investing in education and health services, they also raise the prospect of a possible Dutch disease.

Following the global crisis, Brazil has been seriously affected by the decline in commodity prices. In the last decade, Brazil did not improve key structural features of its economy leading to a sustainable business environment. The lack of long-term investments in infrastructure, for example, is part of the scenario that dampens the expectations around the sustainability of economic growth and social inclusion. As of 2012, only 1.5% of Brazil's GDP goes on infrastructure investment from all

sources, both public and private. To catch up, Brazil would have to triple its annual infrastructure spending for the next 20 years (The Economist, September 28, 2013)

In the aftermath of the global crisis, government intervention has supported aggregate demand and supported social inclusion. However, there are signs that the speed of the consumption and investment growth has been diminishing in a scenario characterized by inflation pressures, lower expectations of bank profitability and a diminishing rate of job creation, among other issues. Considering the global economic integration, Inflationary pressures have put on pressure on domestic interest rates which attract “hot money” from international “carry-trade” operators and finance. Indeed, this attraction turns out to be considered necessary by the Brazilian government in order to address the trade deficit but renders the economy vulnerable to sudden changes in investor sentiment.

In this context, the long term sustainability of development, growth and social cohesion is called into question.

### CALL FOR PAPERS

This conference will focus on various aspects of inclusive and sustainable growth from the broader perspective of examining their interlinkages with other economic, social, and political processes. Concerns with social inclusion extend well beyond issues of justice and fairness, since the degree of economic inequality also affects social cohesion and political stability, and can also have negative implications for economic growth and sustainability. The broad themes to be covered are noted below. Papers falling within the broad topic of the conference, though on aspects not explicitly noted here, are also welcome. We welcome contributions from Brazilian and non-Brazilian economists, sociologists and political scientists.

#### 1. Economic growth and development

Main drivers of Brazilian development and growth; Structural change and manufacturing; Economic and social implications of agribusiness; The South-South relations and the impacts on economic growth; Building the human and technical infrastructure: changes in education, training and in technology; Productivity and growth; The role of foreign transnational corporations; Foreign direct investment and trade during development; The role of Brazilian transnationals; The role of the State in Brazilian development.

#### 2. Problems and challenges associated with Brazilian development

Industrial output in the context of globalization; Balance of payments constraints; The challenges of transnationalization; The rise of China and its implications on the structure and performance of the Brazilian economy; Challenges to Brazilian enterprises in the context of capital globalization.

#### 3. Inequality

Income and wealth distribution; Main drivers of wealth concentration; The rise of rentier incomes; Fiscal policy and inequality; Gender inequality; Generational inequality;

Policies to lower inequality; Patterns of regional and local inequality.

#### 4. The role of finance

Global finance and the implementation of macroeconomic policy; Banking dynamics; Challenges to the development of capital markets; The policy of financial inclusion; Credit cycles and bubbles; Rentier interests, finance, and monetary policy.

#### 5. Wage, employment, and social policies

Main patterns of job creation; Sectoral composition of employment creation and destruction; Gender challenges in the labor market; Educational challenges, employment and wages; Labor market flexibilization: social and economic impacts; The role and scope of social and wage policies; Social policies and poverty; Migration trends; Labor organization and distributive conflicts: the evolution of Trade Unions in Brazil; The changing nature of social classes in Brazil.

#### 6. Inclusion and sustainability: major challenges for Brazil

Inclusion and exclusion drivers in the Brazilian pattern of development: economic, social and political inclusion; Regional distribution; Physical sustainability: issues of resources, transport and pollution; Social sustainability; Political sustainability in the context of current social and economic problems; Sustainability of current welfare policies; Regional inclusivity.

#### 7. The global crisis and the Brazilian economy

The impacts of the crisis on the Brazilian Economy; Policy responses to the crisis; Public banks after the global crisis; Recovering from the crisis: the Brazilian and international experiences compared.

#### Timetable

**Deadline for abstracts:** February 20, 2014,

**Deadline for papers:** April 15, 2014

**Discussion Forum begins** on May 3, 2014,

**Discussion Forum ends** on May 31, 2014

**Abstracts and papers should be submitted to**  
[weabrazilconference@gmail.com](mailto:weabrazilconference@gmail.com)

**Prof. Dr. Maria Alejandra Madi** has made her academic career as an economist in macroeconomics, finance, and socio-economic development. Retired Professor at the Instituto de Economia, State University of Campinas, Brazil, she is currently Assistant Editor of the *International Journal of Pluralism and Economics Education*, co-editor of the WEA Pedagogy Blog and of some of the recent books published by the Green Economics Institute. She is also Director of the Order of Brazilian Economists (Ordem dos Economistas do Brasil) and Counselor at the Regional Economics Council of São Paulo (Conselho Regional de Economia-SP).

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**Prof. Dr. Marcelo Milan** is currently an Assistant Professor of Economics at the Federal University of Rio Grande do Sul, Brazil. He teaches economics and international relations at the undergraduate and graduate levels, in the fields of Macroeconomics, Political Economy, and International Political Economy. Formerly he taught at the Universities of Massachusetts Amherst, Rhode Island – Kingstown, and Wisconsin – Parkside. He has been developing the Brazilian chapter of the WEA.

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### NAFTA and Mexico's Porcelain Wedding By [Juan Carlos Moreno-Brid](#)<sup>1</sup>

*A wedding anniversary is the celebration of love, trust, partnership, tolerance and tenacity. The order varies for any given year.* Paul Sweeney

Twenty years ago, on January 1, 1994, Canada, Mexico and the United States launched the North American Free Trade Agreement (NAFTA), the first initiative of its kind signed between an emerging economy and two fully industrialized nations. In these twenty years NAFTA has created the largest, if not exactly free, very open trade area in the world in terms of the total value of its intraregional commerce. It should be recalled that NAFTA was the Oreo topping of the ice cream cone of the radical reforms launched by Mexico since the mid 1980s to shift away from its traditional development agenda of State-led industrialization, import substitution and oil-led boom-bust experience of 1976-82. With NAFTA, the government wanted to fully deepen trade liberalization with its main trading partners and, most important, to guarantee the lock-in of the market reform processes. The assumption was that these reforms cum NAFTA would set the Mexican economy on a path of robust manufacturing export-led growth. The balance of NAFTA for Mexico in its porcelain wedding anniversary is sweet and sour. On



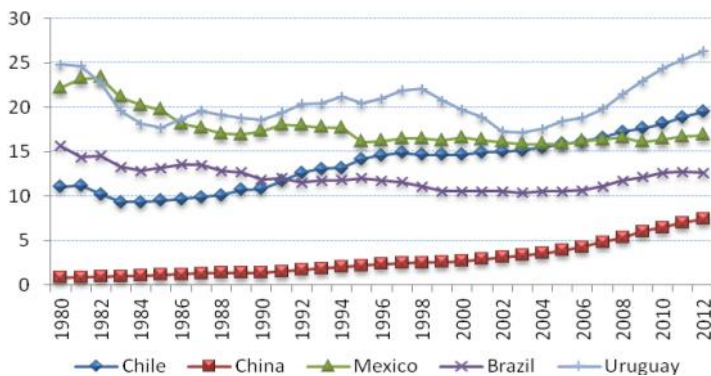
the sweet side, with NAFTA Mexico became, and has remained, one of the most open large economies in the world. Non-oil products represent more than 85% of its total exports, an acute contrast to the less than 20% they represented in 1980. Since NAFTA non-oil exports expanded at an average annual rate of 11%, practically doubling their previous pace. Moreover, from 1994-95 to 2008 – just before the international financial crisis - and with the exception of China, no country increased its market share in the world market of export of manufactures more than Mexico. In addition, Mexican exports are to a large extent composed of manufactured goods of high technological content. And this superb export performance has been accompanied by a low and stable inflation and very small fiscal deficit.

On the sour side, notwithstanding the phenomenal dynamism of exports, the Mexican economy's strategy these last decades has simply failed in its quest to achieve high

1. Deputy Director and Research Coordinator, Economic Commission for Latin America and the Caribbean (ECLAC), Subregional Headquarters in Mexico. The opinions here expressed are the sole responsibility of the author and do not necessarily coincide with those of ECLAC or of the United Nations Organization.

and sustained growth. Indeed, while its contribution to world output was 2.68% in 1990 and 2.44% in 1996, it fell steadily since then to reach 2.23% in 2008 and 2.12 in 2013. The growth performance in per capita terms is even more disappointing. Indeed, from 1994 to 2012, Mexico's GDP per capita, in constant US dollars expanded at a meager annual average rate of 1.1%, a very lackluster result even by Latin American standards, not to mention in comparison with the Mexican economy's own growth experience in 1950-81. As Figure 1 shows, with such slow growth, Mexico's gap with the US economy has kept widening since 1982, and the launch of NAFTA did not reverse this adverse trend. Indeed, in 1980 Mexico's GDP per capita was 23% of the US level, by 1994 the percentage was smaller 17.7%, and 16.9% in 2012. Thus, although since NAFTA the trade position with the US has shifted from massive deficit to a significant surplus, the Mexican economy is lagging behind the US.

**Figure 1. Real GDP per capita of Mexico, China, Brazil Chile and Uruguay relative to the United States (percentages, from data in constant US dollars of 2000)**



[Source: Author's elaboration based on data from the World Bank]

With such slow growth, it is not surprising that more than 50% of the Mexican population still live in poverty and informal employment prevails in the labour market.

Given this mixed balance, what is or should be Mexico's future with NAFTA? Well, to start with, trade liberalization and NAFTA are here to stay. In our view, the obstacles that have blocked Mexico's economic growth for the last two or three decades are not in its trade policy, except to the extent that it came to fully substitute for industrial policies. NAFTA, as a once beautiful porcelain object, is not broken and, thus, needs not be mended. However, to consider that trade policy and other free trade agreements will be the key tools to push economic growth in Mexico would once again be a severe error.

The obstacles to high and sustained economic growth in Mexico are rooted in other key aspects of the development agenda that it has adopted since the mid 1980s in line with the Washington Consensus. The major one is, perhaps, the belief that has marked macroeconomic policy, namely that low fiscal deficit and low inflations are necessary and sufficient conditions for economic growth. The second one, not unrelated to the previous one, is

the weak performance of fixed capital formation. Since the early 1980s, it has been several points below the 25% of GDP threshold identified as the minimum investment ratio required to sustain long-term annual expansions of GDP of 5%. Such weakness is explained by the fact that the contraction in public investment as share of GDP - brought about by the adjustment programs and market reforms commitment to reduce the State's intervention in the economy - was not fully compensated by a rise in private investment. Thus there is a severe lag of Mexico in public infrastructure and - with the exception of some major national champions - in the modernization of productive plant and equipment vis a vis its international competitors. A third one is the absence of a significant fiscal reform that, with the commitment to keep a zero or very small fiscal deficits, make it even more difficult for the State to expand public investment in the significant volumes that are urgently needed. Finally, after NAFTA, Mexico underwent a major financial liberalization. With most of its domestic banking system being sold to foreign intermediaries, banking credit for productive activities and for investment has been and continues to be severely rationed.

On all these matters, the fiscal and financial reforms recently approved in Mexico seem to move in the right direction. The revival of development banks, the strengthening of fiscal revenues in a more progressive way and the elimination of the by-law fixed zero fiscal deficit are welcome. However, additional fiscal reform is needed to strengthen fiscal performance both on the income and on the expenditure side. And finally, as in most fully developed nations including the US, Great Britain, Japan and Germany, industrial policy has to be reinstated as a legitimate and powerful tool of economic policy in Mexico. Industrial policy is indispensable to achieve the structural transformation of Mexico's productive apparatus to have more and more robust domestic backward and forward linkages, higher value added in its overall process in export oriented industries as well as in those oriented to the domestic market. The present government has openly admitted the relevance of industrial policy for Mexico today. Whether this revival in the official discourse is flows through to economic policy actions is still not evident. Today, twenty years after NAFTA's launch, the main focus of Mexico's economic policy agenda is, funnily enough, very similar to that of the late 1970s: the oil industry. Many actors in the government and the international and local business communities voice their approval of a drastic reform that opens the oil and energy sectors to private, domestic and foreign, investment. In the absence of a renewed and active industrial policy, of another round of fiscal reform to significantly augment tax revenues and public investment, and of strong and efficient regulation authorities of, in particular the energy sector, the claims that energy reform will by itself launch the Mexican economy in a trajectory of high and sustained expansion of 5% per year run the risk of being severely off the mark.

## Glasgow University Real World Economics Society

Student societies and initiatives challenging the hegemony of orthodox economics have begun operating all over the world, and some have received considerable media attention. At the University of Glasgow, undergraduate students of economics have since 2010 been provided with a short module introducing Post-Keynesian economics in second year - a glimpse of critical thought in an otherwise thoroughly mainstream programme. Following attendance at the module in the 2012/2013 academic

year we, a group of undergraduate students, joined together to found the Glasgow University Real World Economics Society (GURWES) as a platform for further enquiry into heterodox approaches that our course would not cover.

We began organising activities at the start of the current academic year and this first semester has been a promising start. We have had well-received lectures given by guest-speakers, but also by members of the society, reflecting our focus on mutual support and peer-to-peer learning. Having attended the Post-Keynesian module, we recognise that it is very difficult to accept such a radical break with familiar theories, and that it can be frustrating to engage with concepts so different from what one had been taught for almost two years previously. We therefore make it our primary task to help students look beyond orthodox theory. We are offering study groups to help students from all years with the mainstream content of the course since we believe that a solid understanding of mainstream economic theory is essential to appreciating heterodox critiques and will also allow students more time to explore different ideas and take a pluralistic approach to the discipline. In addition, we are planning to offer voluntary tutorial sessions to students attending the Post-Keynesian module next semester. We found the compulsory tutorials to be unsatisfactory since the tutors (Ph.D.-students) have little familiarity with heterodox approaches.

Our goal for the next semester is to spark a lasting interest in heterodox theory among students and thus enlarge our membership to be able to offer more fre-



quent and diverse activities, such as reading groups and lectures by guest speakers from further afield. The two heterodox lecturers at the university, who have been supporting us in our efforts, have also applied for funding to run heterodox workshops with external speakers in the future. Apart from this, GURWES is also actively encouraging students to engage with economic issues outside the classroom. A delegation of students was sent to the Warwick International Development Summit 2013. Furthermore

we are planning to cooperate with other student societies on campus, supplying a "real world economic" perspective to the issues of interest to them.

We continue to advocate a reform of the curriculum. Students must be introduced to various competing schools of thought, as well as their origins in the history of economic thought. Teaching must make students aware of the limitations of orthodox theory which, even if well-known, are assumed away by instructors. Until such time as the need for reform has been recognised and acted upon, GURWES will provide a platform for the distribution and discussion of theories that differ from the approach presented to students on the course. Glasgow, the alma mater of Adam Smith and centre of the Scottish Enlightenment should once again become a hub of intellectual curiosity and critical thinking in economics.

We are in contact with like-minded student societies at other universities in the UK and the rest of Europe and are exploring the possibility of organising joint events. The movement for change is gaining momentum, and this time around it must be kept up until we succeed.

We are continuously looking for speakers from all backgrounds and schools of thought to speak at our events, so please contact us at [gurealworldeconomicssociety@gmail.com](mailto:gurealworldeconomicssociety@gmail.com) if you are interested. You can also find us on Facebook at <https://www.facebook.com/GURWES>.

[Editor's note: There are some useful links on their [Facebook page](#)].

### **INET YSI PhD Student Workshop** **Toronto, April 10-12, 2014**

The Institute for New Economic Thinking's Young Scholars Initiative (YSI) will host a Ph.D. student workshop in Toronto from April 8-9, 2014, prior to the Institute's annual plenary conference from April 10-12, 2014. The workshop will consist of mini-courses covering topics and methods that are overlooked in the conventional economics curriculum. It also will feature student presentation sessions, which give Ph.D. candidates the opportunity to present and discuss their research in a collaborative environment.

Workshop participation is free for those accepted, and the Institute will provide free accommodations. Travel stipends (airfare) will be provided for select applicants. Others will be responsible for arranging their own travel.

Apply before January 31, 2014, here: <http://ineteconomics.org/ysi/events/workshop-toronto>

## Half a century of progressive economics on the hoof By [John Weeks](#)

I suspect that relatively few economists can point to a moment when their intellectual ideas received the stamp that would guide them through life. I can. I enrolled in my first economics course in the Fall Term of 1960 at the University of Texas at Austin (in those antediluvian times there was only one "UT"). I walked in, sat down with about fifty others, and proceeded to be enthralled by a man in his mid-60s named [Clarence Ayres](#).

Ayres, a founder of the Institutional School whose entire work shows the influence of Thorstein Veblen (who he never met), was a fervent supporter of the New Deal and a critic of mainstream economics and right wing views in general. He possessed a devastating sense of humor. In my first Ayres lecture a reactionary student launched into a tirade about the need to suspend civil rights to fight communism, ending with "we need to fight fire with fire". The Professor, as he was always known, replied, "I prefer to fight fire with the fire department". That exchange taught me an important lesson. Humor is a far more effective weapon of argument than polemics.

It took me almost thirty years to identify the fire department equivalent for the fight against neoclassical economics. It had stared me in the face for all that time: the assumption of full employment. The three people I consider the greatest economists, David Ricardo, Karl Marx and J. M. Keynes shared this insight, that capitalist economies operate with idle labor except in rare moments. Most of these moments occur in wartime.

I cannot exaggerate the power of the idle labor insight to enlighten us. Idle labor means resources are not scarce, except in the sense used in the environmental movement. When labor is idle, all prices, of both outputs and inputs, are not signals. As the level of demand

and employment change, relative prices also change. Output decisions by firms determine prices, not the other way around. All that stuff about "supply and demand" that students are fed and the media chants is wrong, because there are no markets with price takers.

But people believe all that nonsense. It is close to holy writ among the general public. "You cannot go against markets", a neighbor repeatedly tells me when we argue about economic policy. And, right he is, though for the wrong reason. Markets, especially financial markets do not represent impersonal forces. Rather, they respond to the very personal influences of highly concentrated wealth that, to say the least, is extreme difficult to "go against".

After years of writing analytical critiques of neoclassical ideology that had no noticeable impact (and not alone in that frustration), I decided to take our heterodox case to the neophyte undergraduate and feckless public in a new book, *The Economics of the 1%*. Whether this book will fare better than the academic ones in changing the prevailing right wing economic ideology remains to be seen. I join a long and distinguished group of dissident economists in the fight against the fakery of the neoclassical mainstream.

We have some reason to hope for a shift away from the troglodyte myopia of market efficiency. This hope comes not from North America and Europe, where the austerity orthodoxy seems impervious to its failures. Rather it comes from countries in South America, Africa south of the Sahara, and Asia. In Brazil, the second most populous country in the Western Hemisphere, the election of Luiz Inácio Lula da Silva (Lula) brought a government that pursued a heterodox macroeconomic policy, a pursuit followed his successor Dilma Rousseff.

In Southeast Asia heterodox macro policy prevails in several countries, most notably and successfully in Vietnam, where I have worked and advised off-and-on for twenty years (<http://jweeks.org/2004%20Vietnam%20Case%20Study.pdf>). I also worked in Indonesia, but there the government has implemented the Washington Censuses orthodoxy with great fidelity. I cannot recommend a better "lesson learned" than the contrast between Indonesia's dismal experience and Vietnam's growth stability during two global crises, 1997-1999 and 2008 to the present.

I find the most encouraging policy shifts in a few countries in the sub-Saharan region whose governments shunned the neoclassical macro orthodoxy for home-grown pragmatism. I recently worked and advised in two of these countries, Sierra Leone (2009-2010) and Zambia (this year).

I had worked briefly in Sierra Leone in 1986, when the government's economic policy obediently pursued the IMF-World Bank line of bal-



9 August 2009: Minister of Finance of Sierra Leone, Samura Karama discusses counter-cyclical fiscal policy with John Weeks in Freetown.



13 August 2009, African Finance Ministers meet in Freetown. The president of Sierra Leone seated in the center (Ernest Koroma), his Minister of Finance to his left (Samura Karama), with John Weeks standing behind him.

anced budgets, low inflation, and shrink the state. I wrote a book predicting that the policy would lead to economic disaster (two links at <http://jweeks.org/Africa.html>). I did not anticipate that the policies would contribute to over a decade civil war (1991-2002). To my astonishment, in 2009 I was asked by the Minister of Finance to design a macroeconomic program to counter the effect of the Global Financial Crisis on the economy (the country's vice-president had read my book).

Over the next eighteen months the government implemented an expansionary fiscal policy, combined with exchange rate depreciation, that did, indeed, contribute to the recovery of the economy (my report to the finance minister can be found at <http://jweeks.org/IPCCountryStudy18.pdf>). A miserably poor country of six million people recovering from civil war shows the way forward.

By chance the African Finance Ministers held their annual meeting in Freetown while I was there. At the arrangement of the Minister of Finance, I gave the keynote address, presenting the counter-cyclical package designed for and soon implemented in Sierra Leone. I hardly need report that when I advocated monetization to finance the rural employment program the IMF repre-

sentative was less than pleased. By contrast, the finance ministers showed overwhelming enthusiasm. The prevailing orthodox macro policy in Africa was unraveling before my eyes.

My moment of optimism proved brief when not one newspaper or other form of media outside of Africa ran this story of policy rebellion. However, under the radar changes occurred south of the Sahara. A notable case is the central bank in Kenya, whose government seeks to give the impression of toeing the orthodox line. But over at the Central Bank, a closet Keynesian runs the show, rejecting inflation targeting and repeatedly inviting heterodox advisers (including me, albeit briefly; he finds excellent ones in Africa).

We find the most striking case of conversion in the central bank of Zambia (Bank of Zambia, "BoZ"). Following the fall of the founding father Kenneth Kaunda from the presidency, the IMF imposed a know-nothing passivity on the BoZ as part of a draconian

stabilization program. However, over the last several years an outstanding group of professionals at the BoZ has transformed bank policy fundamentally. A major aspect of that transformation is effectively monitoring the foreign exchange flows associated with the privatized mining companies (whose tricks for concealing its operations are as impressive as they are nefarious). After working with the BoZ over the summer of 2013 I came away impressed by how professionalism and commitment to pragmatism could create policy space even in a small open economy previously dominated by international mining interests.

The forces of reactionary austerity remain strong and unabashed in failure, fully entrenched in Europe and the United States. But here and there are signs that the heterodox message is not merely reaching but influencing policy in likely and unlikely places.

[Editor's note: John Weeks is Professor Emeritus at the School of Oriental & African Studies, University of London. His forthcoming book, *The Economics of the 1%: How mainstream economics serves the rich, obscures reality and distorts policy*, is being published by Anthem Press <http://www.anthempress.com/economics-of-the-1-percent> at a surprisingly accessible price.]

## Autonomous, Identical individuals or heterogeneity, interaction and groups?

*"While mainstream economic theory has long been engaged in an attempt to place economics on **secure and individualistic microfoundations**, it was quickly realized that the potential diversity among individuals threatened the feasibility of this project. Many types of **interaction between individuals** have to be ignored to make the analysis tractable. Indeed, it was not easy to develop a composite picture from a **diversity of types** of individual agent."*

P.132 of Hodgson, G. M. (1997) Metaphor and pluralism in economics: mechanics and biology, in A. Salanti & E. Screpanti (Eds.), *Pluralism in Economics: New Perspectives in History and Methodology* (pp. 131-154). Aldershot: Edward Elgar

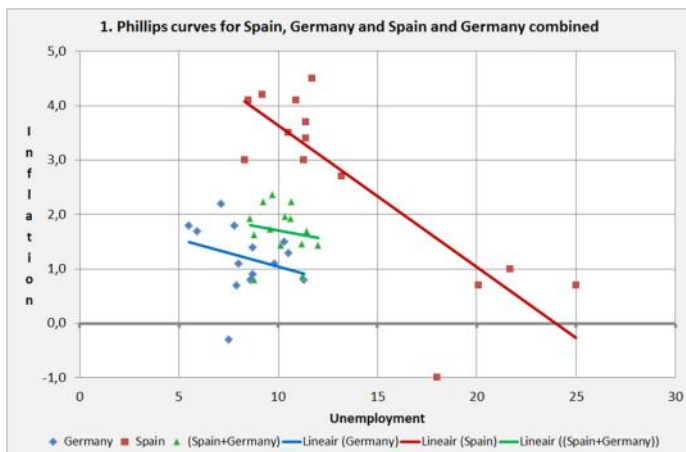
## A Eurozone NAIRU – fallacy of composition? By [Merijn Knibbe](#)

In [a recent blogpost](#) Paul Krugman wonders about the methods to calculate potential output and states:

*I've noted on a number of occasions that the standard methods for estimating economic potential are working very badly in this slump; they are, all too often, causing officials to interpret the slump as "structural", something that can be fixed only through painful reforms (which, when unemployment fails to fall, will be dismissed as just not enough) rather than as a shortfall in demand. Spain is an especially striking case.*

And he's right. One of the standard methods for estimating structural unemployment is calculating the NAIRU, the 'Non-Accelerating Inflation Rate of Unemployment'. To do this, a 'Phillips-curve' is used. This curve shows the relation between inflation and unemployment. An increase in non-structural unemployment will, according to this line of thinking, lead to a decrease in inflation as it will drive down wage increases and might be cured by additional demand while an increase in structural unemployment will not affect inflation and can't be cured by additional demand. Any rise in unemployment absent a decline in inflation will therefore be understood as 'structural'. As inflation in the Eurozone was, between 1999 and 2012 and except for 2009, basically flat (it hovered between 1.6 and 2.7%) this means that using this method will yield that every increase in Eurozone unemployment in this period was structural – as inflation did not change. *And it is exactly this conclusion* which is drawn on basis of chart 8 in this [ECB Monthly Bulletin article](#), which plots NAIRU-estimates for the Eurozone from the IMF, the OECD and the European Commission. According to these institutions almost all Eurozone unemployment, including the present 27% rates in Spain and Greece, is structural.

But the question is: "how wise is it to calculate an Eurozone wide average NAIRU?". As we all know it is possible to drown in a river which is, *on average*, only thirty centimeters deep. How come? What happens can be shown by for instance comparing Phillips curves for Spain and Germany (graph 1).



The average curve for Spain and Germany (Germany with a weight of 2 and Spain with a weight of 1, weights roughly based on the population of the countries) is flat-

*ter (i.e. less influence of unemployment upon inflation), less tight (i.e. a more noise) and especially dramatically shorter...* This means that unemployment as well as inflation in Germany and Spain show to an extent opposing and offsetting tendencies (as can be seen when series of employment, unemployment and inflation are compared directly), which of course matches well with large capital flows from Germany to Spain. Which means that an average Phillips curve for these two countries (let alone the Eurozone) can't be used to conclude that labour markets are inflexible. An outflow of savings from Germany to Spain leads to relatively lower inflation and employment/higher unemployment in Germany and higher inflation and employment/lower unemployment in Spain while the opposite occurred when flows of capital reversed after 2008. It's not wise, to calculate an Eurozone wide NAIRU!

Caveat: I do not think that 'structural unemployment' is a useful concept anyway as all these 'rigidities' which supposedly hinder job creation always suddenly turn out to be rather unimportant once an economy recovers. And as far as I'm concerned it is interesting to investigate the relation between changes in wages and the unemployment rate but changes in the rate of inflation are not just caused by wage changes but are influenced by productivity changes and changes in the rate of profit or changes in oil prices too, which makes the relation quite noisy. High wage increases can lead to high inflation – but the same is true for high rents, an increase in indirect taxes or an increasing rate of profit. But the point is that on top of these complications there also is, at least in the Eurozone, a kind of fallacy of composition effect, caused by inter-country flows of capital when it comes to analyzing Phillips curves.

Technicalities: I did not use consumer price inflation but 'domestic demand inflation', which captures a broader range of prices, and compared unemployment with inflation one year later. Using domestic demand inflation does make quite a difference (graph 2). The difference with



core inflation (which excludes prices of energy) is smaller but still considerable. After 2008, the opposite pattern can be witnessed. The GDP deflator is not used as this is influenced quite a bit by changes in the exchange rate.

All data: Eurostat.



## Pluralist gains and losses in Australia

By [Stuart Birks](#)

Economics has a strong pluralist representation in Australia. Inter alia, this is evidenced by recent publications and by the activities of the [Society of Heterodox Economists \(SHE\)](#), which runs annual conferences under the able stewardship of Peter Kreisler.

Prominent on the Australian scene is the still very active Sydney-based octogenarian [Geoff Harcourt](#). He is one of several significant Sydney economists, including Peter Kreisler, who have close links to Cambridge in the UK and who have been heavily involved in alternative economic thinking there. His recent book publications in the area, as author or editor, include:

Harcourt, G. C. (2012a). *The making of a post-Keynesian economist: Cambridge harvest*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan.

Harcourt, G. C. (2012b). *On Skidelsky's Keynes and other essays: selected essays of G.C. Harcourt*. Basingstoke: Palgrave Macmillan.

Harcourt, G. C., & Kreisler, P. (Eds.). (2013a). *The Oxford handbook of post-Keynesian economics, Volume 1: Theory and origins*. New York: Oxford University Press.

Harcourt, G. C., & Kreisler, P. (Eds.). (2013b). *The Oxford handbook of post-Keynesian economics, Volume 2: Critiques and methodology*. New York: Oxford University Press.

Pixley, J., & Harcourt, G. C. (Eds.). (2013). *Financial crises and the nature of capitalist money: mutual developments from the work of Geoffrey Ingham*. Basingstoke: Palgrave Macmillan.

Other recent publications by Australian authors to get a mention at the conference included two by Neil Hart: Hart, N. (2011). *Equilibrium and evolution: Alfred Marshall and the Marshallians*. New York: Palgrave Macmillan.

Hart, N. (2013). *Alfred Marshall and modern economics: equilibrium theory and evolutionary economics*. Houndmills, Basingstoke, Hampshire: Palgrave Macmillan.

and Paul Frijters's book written with the assistance of Gigi Foster:

Frijters, P., & Foster, G. (2013) *An economic theory of greed, love, groups, and networks*. Cambridge: Cambridge University Press.

In addition, a book has just been published based on papers from the [April 2013 conference](#) to recognise the notable contribution of University of Sydney political economist Frank Stilwell:

Schroeder, S. K., & Chester, L. (Eds.). (2014). *Challenging the Orthodoxy: Reflections on Frank Stilwell's Contribution to Political Economy*. Berlin Heidelberg: Springer.

There will be another conference on 15-16 April 2014, this time in honour of John King, "Heterodoxy in economics: from history to pluralism", at Victoria University, Melbourne.

Those with concerns about a hegemonic Euro-American perspective may wish to see more grass-roots involvement by policy analysts and practitioners to bal-

ance the strong academic focus. Nevertheless, this activity indicates a large, viable group that has strong international connections and is open to a wide range of approaches. However, despite their apparent strength, they are a minority in the Australian economics community, which continues to be dominated by the mainstream.

It has not been an easy road for them. The difficult but ultimately successful struggle to establish political economy at the University of Sydney is described in Butler, G., Jones, E., & Stilwell, F. (2009). *Political economy now!: the struggle for alternative economics at the University of Sydney*. Sydney: Darlington Press. The outcome of a recent challenge to the strong pluralist economics programme at the University of Western Sydney is less encouraging, though. This has been recently described by John Lodewijks (2013/14, Political economy in Greater Western Sydney, *Journal of Australian Political Economy*, 72, 80-105).

The reasoning behind the cutting of the successful programme and severe shedding of staff is not clear, although it is likely that it yet another example of the changed leadership and management approach sweeping western countries. This has been described in terms of decision makers who are detached from the activity they are overseeing, along with an overreliance on imperfect output measures (such as journal rankings). Lodewijks suggests two possibly interrelated determinants:

"[First,] corporate managerialism has replaced collegial systems of administration. The ability to enact cuts without collegial discussion or oversight is seen as a prerogative of governing bodies. [Second,] perhaps complementary with the first, is that the modern university has lost its way and poor decision-making by managers, who are often not academics, has led to undesirable consequences." (p.91)

He does not see this as unique to economics, "The decline of collegiality in favour of executive managerialism is widely lamented in the higher education sector" (p.101).

There was also the impact of low journal rankings for applied and heterodox economics, which resulted in poor results in research assessment exercises. This was part of an international trend, "The imperative was to publish in highly-ranked neoclassical journals; staff were threatened with a loss of professional identity and life as an economist if they did not conform" (p.93).

The overall picture is consistent with one described in a book focusing on the cooperative aspects of modern western societies:

"Changes in modern labour have in another way weakened both the desire and the capacity to cooperate with those who differ. In principle, every modern organization is in favour of Cooperation; in practice, the structure of modern organizations inhibits it - a fact recognized in managerial discussions of the 'silo ef-

fect', the isolation of individuals and departments in different units, people and groups who share little and who indeed hoard information valuable to others. Changes in the time people spend working together increase this isolation." (P.7 of Sennett, R. (2012) *Together: the rituals, pleasures and politics of coopera-*

*tion*. New Haven, CT: Yale University Press)

If such phenomena are widespread, and their impact is significant, as it would appear to be, then it is important that economists incorporate them into their theories and models. That is not, at present, the case with mainstream economics.

## Pluralism at Leeds University Business School—Economics Division

The Economic Profession and the way Economics is taught is once more in the spot-light. The international financial crisis, the consequent recession and the inability of mainstream Economics to predict the former and avoid the latter, has re-emphasised the need for a more open and pluralistic Economics. This is an Economics which learns from history, is open to other social sciences, and puts the analysis and solution of real world problems at its core. The insights of some of the greatest economists, including Marx, Keynes, Minsky, Veblen, Schumpeter have largely been forgotten by the current mainstream. However, these economists and their emphasis on social groups, money, uncertainty, inequality, and the inherent instability of the capitalist system offer crucial insights for current and future economic problems. The need to adopt such a broader and pluralistic approach to Economics is also increasingly demanded by students interested in studying an Economics which helps them to understand and solve real world problems. Recent student initiatives in the UK have shown students' increased dissatisfaction with the exclusive reliance in their teaching on the neoclassical approach at the expense of other economic approaches.

The Economics Division of Leeds University Business School aims to offer such a pluralistic and broad view of Economics teachings. It provides undergraduate programmes in Economics, Business Economics, and Economics and Finance and supports a full range of joint honours programmes and economics modules across the University. It offers MSc programmes in Economics, and Economics and Finance and a full PhD program. All programmes are supported by several national and international scholarships. The Division's main ethos is to provide students with a wide range of different economic approaches, which allow students to form their own opinion and use a wide set of tools to face the world as freshly formed Economists. We teach traditional economics modules and neoclassical economics alongside material which introduce students to alternative economic approaches, such as Post Keynesian and Marxist

By [Giuseppe Fontana](#) and [Annina Kaltenbrunner](#)

Economics, and insights from other social sciences. This also includes a strong focus on economic history and the history of economic thought, which shows students the importance of contextualising economic knowledge and the crucial role of history and path dependency. We strongly believe that such an approach to Economics teaching is an important element of making students critical and responsible citizens. Moreover, a more open and "real-world" oriented teaching arguably increases students' employability. Many employers, including but not only the Government Economic Service (GES), seek students who understand and can solve day-to-day Economic problems. In 2012-13 Leeds Economics graduates were among the most successful of all UK students in the annual GES intake.

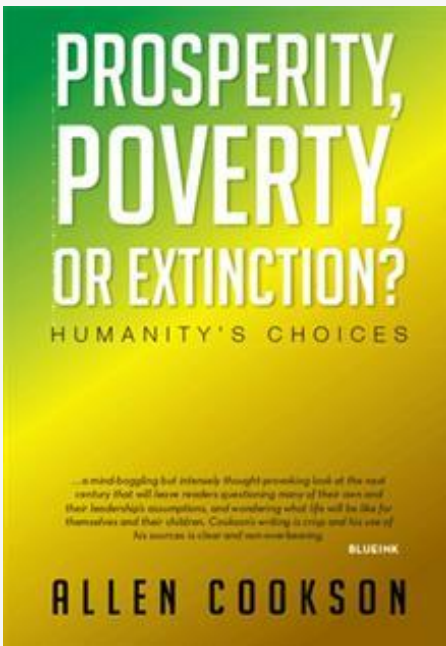
Our pluralist teaching is informed by the Division's distinct research agenda which focuses on real world problems such as financialisation and income inequality, and draws on several research areas, including macroeconomic theory and policy, comparative economic systems, labour economics, industrial economics, development and international economics, and Political Economy. This research agenda is reflected in one of the largest research grants in social sciences ever offered by the European Union on Financialisation, Economy, Society and Sustainable Development (FESSUD, <http://fessud.eu/>), which is coordinated in Leeds. It is also supported by the recently created Applied Institute of Research in Economics (AIRE). AIRE enhances research within the division and provides support for interdisciplinary research across the University and beyond. This vibrant research and teaching community is also supported by a regular Research Seminar Series, which over the last years has featured a wide range of speakers, including Jamie Galbraith, Charles Goodhart, Mark Lavoie, Wendy Carlin, Mark Setterfield, Stephanie Seguino, Peter Skott, Ozlem Onaran, Ha-Joon Chang, Domenico Delli Gatti, Sheila Dow, Karen Mumford and many more.

## Lively discussion on the WEA Pedagogy Blog

<http://weapedagogy.wordpress.com/>

This blog is well worth a visit. Among other things, there has been several blog posts on ethics in economics. It is an important area and raises questions about the nature of economics and the underlying behavioural assumptions in orthodox theory. Some of these issues have also been explored by Deirdre McCloskey, who outlines some of her thinking in a piece, "Virtues lost: How it happened and why we can't live without them", which can be found at: <http://www.abc.net.au/religion/articles/2013/12/18/3913584.htm>

**Book Review** Allen Cookson, *Prosperity, Poverty or Extinction? Humanities Choices*, 2013, Xlibris, 590 pages, ISBN: 978-1-47974-256-1, hardback, paper-



Allen Cookson provides a smorgasbord of ideas and choices; for both the individual and humanity as a whole.

"Prosperity, Poverty or Extinction? Humanity's Choices" is peppered with references to the ideas of great minds, strung together with a strong personal passion. It is a book that is likely to both appeal and repel; it may appeal to lateral and

critical thinkers who are secure enough to pick the cherries out of the pie. It may repel those who look for the recipe for the cherry pie, as this remains an enigma.

As an Ecological Economist, I found this book an interesting read for a variety of reasons. At its core, I share Cookson's concern about unsustainable and uneconomic growth. The book covers a lot of ground and as a consequence some complex ideas are introduced with a very short overview. Take, for example, the chapter on system thinking and system dynamics. While I was concerned about the speed and detail with which such big concepts were covered, this chapter served to spur a good conversation with my high-school-aged daughter. The educational background of Cookson seems to provide him with a unique ability to blend fact and fiction and thereby stimulate an interesting narrative.

The stories around concepts presented were both familiar (as drawn from international literature) and surprisingly personal - and always with a New Zealand flavour. For example, Allen Cookson illustrates the limitations of Cost Benefit Analysis (p.253-254) to establish all indirect benefits, with a New Zealand based example regarding alcohol consumption. The story then introduces Contingent Valuation and considers Willingness-to-Pay using a personal interpretation: "On cost, how much compensation would a person need whose life and prospects were converted to a life of dependency with constant physical pain and mental anguish of impaired mental function, all as the result of a road accident or unprovoked mugging by a drunk?"

While it is possible to skip over the mathematical or technical (sometimes jargony) language without losing the thread, there is no escape from the personal stories that intersperse the references to, and reflections from, great minds. It makes for an entertaining read of propo-

sitions that one would not often come across. At several points in the book I blinked my eyes because thoughts were strung together in a blatantly opinionated manner that is both refreshing and troubling. For example, on p 412 the topic of atheism starts with a personal story about the author running into a 'type' during a tramp who is quoted as saying, "I couldn't care less about future generations, or anyone else for that matter. I just look after myself". This encounter provokes the author to make a connection with 'right-wing American "Christians"', and via Ronald Reagan and Alan Greenspan take a shortcut to the Tea Party. Before the page is over, I am baffled by the interpretation of nihilism attributed to Daly and Farley (2011. P.47), "Relax, enjoy yourself. When you are dead, you are dead". For the unsuspecting reader, it may appear that Daly and Farley are the 'nihilists', which is as far from what I personally know of these esteemed scholars. Upon checking the reference, it confirmed that indeed, Daly and Farley presented a text box on 'Determinism in history of Philosophy' (page 47 in *Ecological Economics; principles and applications*) from which this quote was drawn but this is not their view. The way the dots are connected in this book does require an alert mind and is certainly an acquired taste.

In 2000, Ray and Anderson published *The cultural creative: How 50 million people are changing the world* and posed that, when a cultural threshold is reached, ideas that have been floating for a while suddenly make it into the mainstream and the fundamental shift from 'thinking' to 'acting' can occur. This book no doubt contributes to the conversation necessary to bring about such a shift. When enough (especially young) people are equipped with the critical thinking skills and ability to 'connect the dots', a critical mass of cultural creative could develop pathways to avoid the pitfalls of economic growth as the dominant operating system for society.

This book is intended for the population that falls in the category of intelligent, educated lay people, students and academics, with an interest in biology, chemistry, economics, demography, education, engineering, farming, geography, politics, physics, psychology, religion, and other subjects. In fact, there are so many possible angles included in this book that it will widen anyone's mental horizons by linking these subjects. The question is what percentage of readers will fall into this category?

I recommend this book as a good read and eye opener to the broader public to explain how the fundamental physical and ecological principles of current economic practices are detached from physical reality.

With 589 pages, this is a 'brick' off Cookson's chest. Conceived at a New Zealand kitchen table, I imagine that dinners at the Cooksons' are far from boring. This book has the potential to spur many more conversations, especially among the cultural creative; a pre-requisite to exercising 'humanity's choices'.

## Recognition for pluralist economics teacher Rod O'Donnell

**Congratulations are due to Rod O'Donnell**, Professor at Sydney's University of Technology. He has been recognised by the Australian Government's Office for Learning and Teaching in the [2013 Australian Awards for University Teaching](#). He was the only economist to receive an award.

The explanation for his award includes the following:

**"Professor O'Donnell's approach synergistically combines two objectives, the broadening and deepening of discipline knowledge, and the fostering of a rich set of graduate attributes beneficial to students, employers and society; analytical and critical thinking skills, public speaking, leadership, creativity, self-reflectiveness, and gender, cultural and ethical awareness. His teaching combines multiple economic perspectives with activity-based learning through simulations, interactive class activities and peer mentoring."**

The award is in part due to his course, "Alternative Perspectives in Contemporary Economics", described in O'Donnell, R. (2014) What do graduate attributes have to do with Political Economy? in S. K. Schroeder & L. Chester (Eds.), *Challenging the Orthodoxy: Reflections on Frank Stilwell's Contribution to Political Economy* (pp. 57-76). Berlin Heidelberg: Springer. Orthodox economics programmes are too narrow to achieve O'Donnell's broader objectives. The approach he describes is likely to be stimulating and rewarding for students. However, as with pluralist approaches more generally, they may not get the required support from a detached managerial university administration.

Rod is part of the active pluralist community in Sydney that is described on pp.9-10 of this Newsletter. Some of the difficulties are described there. Hopefully the Award will be noted by those in key positions.

## Asian International Economics Network

Get involved in policy discussions!

The ADB's Asian International Economists Network (AIEN) is a forum for trade policy discussions.

We welcome contributions to our regular blog feature "Trade Spotlight". Contributions should not exceed 800 words and provide information and analysis on current issues related but not limited to international trade and investment, money and finance, and regional integration and cooperation. The goal is to stimulate debate through views substantiated by evidence.

Blog Archive [http://www.aienetwork.org/trade\\_spotlight\\_archive](http://www.aienetwork.org/trade_spotlight_archive)

## Defining economics for tertiary study

The OECD has a project for the [Assessment of Higher Education Learning Outcomes](#). The project includes economics. While it can be useful to specify and measure desired outcomes, the process can also affect the current content and future development of a discipline.

The approach has been [adopted in Australia](#), with a working party appointed to develop learning standards for Australian Bachelors- and Masters-level economics degrees. It is hoped that the learning standards will be, **"a useful resource for the purposes of benchmarking intended learning outcomes in existing economics programs, and for designing any new economics programs"**.

Their report not only describes their suggested learning standards, but also has appendices giving OECD and UK developments. It can be found [here](#).

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