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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.

Inside this issue:

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Call for contributions:

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WEA Conferences: latest news

As I write the WEA conference on ***Sustainability: Missing Points in the Development Debate*** is ongoing. The leaders Peter Soderbaum and Malgorzata Dereniowska received many submissions and accepted over twenty of them. The Discussion Forum currently ongoing will be closed down by the time this reaches you.

The conference on ***Rethinking Financial Markets*** led by David Westbrook, with Nick Krafft and Richard Whelan as co-leaders, is also underway. The deadline for papers is 15th October and the Discussion Forum will be 1st November to 30th November. This conference has also received a good number of submissions and we hope for a lively discussion particularly given the controversial topic.

A conference on ***The Political Economy of Economic Metrics*** led by Merijn Knibbe and D. J. Bezemer is planned for January 2013. The deadline for papers is 7th January and the Discussion Forum starts on 28th Jan. and ends 25th Feb. We hope that many of you will participate as authors of papers or comments and as audience. It is a very important topic with economic, political and statistical dimensions of interest to all economists and people from allied disciplines.
http://peemconference2013.worldeconomicsassociation.org/

A conference on the ***Economics Curriculum*** will follow in February-March. This is one of the hottest topics in our profession of interest to students, their teachers as well as to practising economists who need to put to practical use the theories and techniques learned in their training. The conference leader will be John E. (Jack) Reardon who has worked in the field. An interesting article by Jack will soon be published in our ***Real World Economics Review***. The Conference Call will be developed soon and details will be given in the next Newsletter. You can start considering whether you want to submit a paper.

Discussions are ongoing about a conference on ***Europe and the Euro***.

As readers of this Newsletter know, we have also plans for a series of conferences on Regional Issues in which we consider either a region or a large country and invite contributions on its economy and economics and their link with politics and society. We are going to start this series with a conference on the ***Arab Countries*** led by Ali Kadri and Linda Matar. Plans are also underway for a conference on ***Mexico*** - with Juan Carlos Moreno and Alicia Puyana as leaders - and one on ***India***. I would like to hear from WEA members with suggestions for further Regional Issue conferences and for potential leaders.

I take this opportunity to remind members that the success of our activities is, to a large extent, dependent on your active participation.

Please participate to our conferences as author and commentator as well as audience.

I would also like to hear from any of you who have ideas about further conferences and possible leaders for them.

Timetable for forthcoming conferences

Conference	Paper Deadline	Discussion Forum
Rethinking Financial Markets	**15th Oct 2012**	**1st Nov to 30th Nov**
The Political Economy of Economic Metrics	**7th Jan 2013**	**28th Jan to 25th Feb**
Economics Curriculum	**Feb 2013**	**March 2013**

Grazia Ietto-Gillies,
Chair Conference Organizing Committee

Inaugural issue of World Economic Review

The first issue of World Economic Review, the new online-based general purpose journal of the World Economic Association was released on 8th September. You can read and download it, free of charge, at http://wer.worldeconomicsassociation.org/

By the end of September, there had been over 4000 individual article downloads. We do not have the numbers for downloads of the whole issue, due to a bug in the counting software. Experience tells us that they should be in the same order of magnitude.

Here is a summary of the content of the first issue. Michael Hudson and Dirk Bezemer's *Incorporating the Rentier Sectors into a Financial Model* provides a conceptual basis for modeling the finance, insurance and real-estate sector separately from the producing sector and shows that such a separation could also be carried out statistically. The experience of the financial crisis suggests that this is overdue.

Milford Bateman and Ha-Joon Chang challenge the empirical record and the theoretical foundation of the promise that microfinance could end poverty. *Microfinance and the Illusion of Development: From Hubris to Nemesis in Thirty Years* suggests that positive short run outcomes for a few lucky individuals are swamped by longer run downsides and opportunity costs at the community and national level. Roberto Frenkel and Martín Rapetti pose the question: *External Fragility or Deindustrialization: What is the Main Threat to Latin American Countries in the 2010s?* and show that deindustrialization is currently the main threat emanating from excessive capital inflows and appreciating local currencies.

In *Pension Liabilities: Fear Tactics and Serious Policy*, David Rosnick and Dean Baker derive a funding rule for state and local pension funds, based on historical stock market returns, which maintains a relatively even flow to their pensions and does not burden taxpayers at certain points in time with excess burdens. In *Brain Physiology, Egoistic and Empathic Motivation, and Brain Plasticity: Toward a More Human Economics*, John F. Tomer revises Dual Motive Theory with the notion that brain change is a product of individual effort and represents the individual's investment in intangible capital. In this revised view, the balance that individuals, groups, and societies strike between ego and empathy orientation is to a great extent determined by such intangible investments, not simply by brain physiology.

Ali Kadri provides a timely article on the historical basis of the social discontent that led to the "Arab Spring" by *Revisiting Arab Socialism* and its neoliberal successor-regime, in which the state compressed wages, lifted its protection of national industry, set single exchange rates and interest rates and opened up trade and capital accounts with the intention of readying cheapened national resources for transfer abroad. Finally, the late Alice Amsden argues in *Grass Roots War on Poverty* that in the absence of available jobs neither consumption oriented "appropriate technologies" nor measures to make job seekers more capable will not do anything to alleviate poverty.

WER-editors look forward to high-quality submissions from all fields of economics and neighboring disciplines, including, but not limited to, sociology, political science, management and psychology, which strive to make a significant contribution toward understanding economic phenomena and improving the human condition.

Submissions that meet minimum requirements (including English grammar) will be posted on the article review site for open peer review. At present, there are about ten papers pending in the open review process. Submission is continuously possible. If an issue is full, which is currently not the case, submissions will be considered for the following issue.

Here are three **examples of papers under open peer review**: In *Institutional Support and Technological Upgrading: Evidence from Dynamic Clusters in Latin America and Asia*, Rajah Rasiah and Jebamalai Vinanchiarachi provide case studies of four successful industrial clusters. Philip O. Alege and Evans S. Osabuohien find in *Exchange Rate Policy and Africa's Foreign Trade: A Panel Cointegration Analysis* that in Sub-Saharan Africa export and import are inelastic to changes in exchange rates and conclude that depreciation may not have the expected results. David McMullen is *Re-Opening the Debates on Economic Calculation and Motivation under Socialism*, concluding that, contrary to claims by Austrian School authors, a functioning price system for intermediate goods is possible under socialism.

Sheila Dow on Foundations for New Economic Thinking

I have been talking to Sheila Dow about her book, Foundations for new economic thinking (2012, Palgrave Macmillan). It covers debates and developments in economics over several decades. In particular, there is one central theme that she has been developing over this time. It relates to the levels at which we could look at or understand issues, and I shall briefly summarise them here.

If we take the most fundamental level in her structure, that of ontology, this refers to what the real world is actually like. While both Dow and Lawson (see the August 2012 issue of this Newsletter) use the term ontology, both acknowledge that we will not be able to give a completely accurate representation of the real world. I am reminded of Jorge Luis Borges' one paragraph short story, "On exactitude in science", about a map of the world that was so detailed that it filled the whole world. Our representations are simplifications, highlighting what we consider to be the important aspects, and require use of language with its associated categorisation and interpretation (or, in other terminology, "framing"). Dow uses the term, "world view" to refer to the closest we can get to reality given the constraints of language. Lawson speaks of abstraction (see here, p.6), and any attempt to describe will be an abstraction from the true underlying situation.

The next level as we move closer to application would be that of methodology. This gives the broad approach, how we choose to see things. Much of Dow's writing is in reaction to mainstream approaches, and she groups these within a specific methodology, that of mathematically based deductive reasoning with closed systems (fully internally defined, as are all mathematical and graphical models) and decision making by participants who are atomistic (independent), as contrasted with organic (interactive and evolutionary).

The methodology puts bounds on what will be perceived, but there are alternative methodologies. One alternative has the broad label 'pluralism', but Dow distinguishes between methodological pluralism, which acknowledges the existence and legitimacy of other methodologies, and pluralism of method, whereby a researcher uses several methods in combination to research a topic. Dow highlights one important aspect of methodological distinctions as described by Caldwell (1986), namely that it can be misleading to criticise one methodology by the criteria of another. This is a common problem in debate across methodologies and is therefore a reason for being aware of methodological distinctions in the first place. Positivist mainstream economists may not be aware of this dimension, which is why Dow, Lawson and others have spent many years trying to bring it to their attention.

Within a methodology, there could be several methods that could be used, and these can produce theories. There is then the distinction between theories and models, and a further stage of applying findings to real world issues, but we will not go there. Instead, I can now summarise a major point that has been evolving in Dow's thinking over many years and is very important for economic debates today.

Debate between advocates of alternative theories should not be seen simply as debates on a single level, to be judged by criteria that are assumed to be universal. They should be seen also in terms of their position in relation to methods, methodologies and world views. Differences in position may have their roots in these aspects, and not just in relation to the slope of a line or statistical significance of a regression coefficient. It is important, therefore, that all economists are able to communicate and debate the relative merits, not just of their theories, but also of their own methodological approach. Heterodox economists, being less dominant and hence more aware of the existence of a mainstream alternative, may find that this comes more naturally to them. The book provides conceptual tools for this, along with citeable resources to support their use.

In summary, Dow's book shows the evolution of thinking on these matters over the past 30 years. It sets a framework for critical assessment of mainstream economics and indicates how economists can take a broader, and perhaps more pluralist, approach.

Caldwell, B. J. (1986). Towards a broader conception of criticism. *History of Political Economy, 18*(4), 675-681.

What do you really want?

"The laws which regulate the value of the supply forthcoming from producers have been almost exhaustively developed in political economy; but the deeper laws which regulate the demand of the consumers, and which give the love of money all its force and all its meaning, have never yet received the regular attention of any school of philosophers."

Leslie, T. E. C. (1862) The love of money

"[T]here are vast numbers of people both in town and country who are brought up with insufficient food, clothing, and house-room; whose education is broken off early in order that they may go to work for wages; who thenceforth are engaged during long hours in exhausting toil with imperfectly nourished bodies, and have therefore no chance of developing their higher mental faculties. **Their life is not necessarily unhealthy or unhappy**. Rejoicing in their affections towards God and man, and perhaps even possessing some natural refinement of feeling, **they may lead lives that are far less incomplete than those of many, who have more material wealth**."

Bk 1 Ch1 of Marshall, A. (1920). Principles of Economics

"The market establishes a system of human relations in which order, prosperity, peace, and even happiness can be achieved by people who don't care at all about one another's well-being...Instead of depending on informal personal contact between intimate friends, lovers, and family members, the market depends upon impersonal, formal contract between vast numbers of interchangeable buyers and sellers. In all of these ways, the market system economizes on love, a human quality that is presumably in short supply."

P.193-4 of Schwartz, B. (1994). *The costs of living: how market freedom erodes the best things in life*. New York: W.W. Norton

Transition and EU Enlargement

By Paul Hare p.g.hare@hw.ac.uk paulhare10@gmail.com

For about forty years, from the late 1940s until 1989, Central and Eastern European countries were under communist rule, with an economic system based on central planning rather than markets and market-based institutions. The region was both politically and economically dominated by the Soviet Union, which itself lasted until 1991. Germany back then was divided into East (communist, authoritarian) and West (capitalist, democratic), the division reinforced by the infamous Berlin Wall, erected in 1961. In the political terminology of the time, Europe was divided by the Iron Curtain, a very real and very thoroughly policed boundary between East and West.

What is quite remarkable, though, is how rapidly – following the collapse of communist regimes over the years 1989-1991 – all this dreadful past has been forgotten. For instance, in my own university I find that our students know less and less about Europe's communist past, with surprisingly many never having heard of the Iron Curtain. Indeed I sometimes wonder what these students would make of Cold War era spy movies, and suspect the answer is 'not a lot'. It appears that our schools, in the UK that is, teach lots about the Second World War and very little about the troubled years that followed.

Partly because of this, I decided a few years ago to write a book about my experiences in Eastern Europe over the course of my career as a professional economist. The book was actually aimed at serving three functions: (a) to remind readers that Europe had a communist past, and to convey a flavour of what it was like, economically; (b) since I had visited many interesting and little known places in the region, to recount some of my travel tales; and (c) to convey something of what economists do when they visit different countries to carry out studies, offer policy advice, and so on.

The result was my book, ***Vodka and Pickled Cabbage***, first published in 2010, and covering my travels in eastern Europe from my very first visit to Hungary in 1968. It is appropriate, therefore, that I'm writing this while sitting in Budapest, my favourite city, as a guest of Budapest Corvinus University, formerly the Karl Marx University of Economic Sciences.

Sadly, my original publisher soon went into liquidation, and after many months I gathered that no one seemed likely to pick up the pieces to keep my book, and many others, in print. Hence earlier this year I finally concluded that the only way forward was to reissue the book myself, using the nice self-publishing software now available through Amazon. This proved surprisingly easy, and the 2012 edition of my book is now available both as a paperback and for the Kindle, on Amazon sites around the world. Since I never wrote the book to make my fortune, it has always been possible, too, to download the text for free either from my own personal website, or from an area studies website in the US. Through these channels, I gather that several thousand copies have been downloaded. But do feel free to buy a copy!

Now, one of the themes in my book was the process whereby ten of the transition economies in Eastern Europe eventually became members of the EU – eight countries joining in 2004, two more in 2007. More countries are in the pipeline, with Croatia set to join next year (2013). While countries like Hungary saw joining the EU as part of a political project to re-join the Western system of alliances (NATO, OECD, etc.), and expected it to happen quickly, the reality was much more complicated and difficult (economists who are used to thinking in comparative static terms please note). It actually took 15 years. To quote from Chapter IX of my book,

'This sounds like a very long period, and no doubt, for some of the countries anxious to rejoin the western system of economic and political alliances as rapidly as possible, that's how it must have felt. Nevertheless, it was a very complex process, involving several important stages. Much of the complexity, and hence the duration of the process, was probably unavoidable.

Roughly speaking, the main stages – some of them partly overlapping – were as follows: (a) initial euphoria over the end of communism; (b) trade liberalisation and the Association Agreements; (c) economic reforms and gradual adoption of the *acquis communautaire*; (d) the formal negotiations; (e) ratification and accession.'

Stage (a) is the period when communism fell and the old institutions of central planning were simply shut down or abandoned. The new democratically elected politicians were impatient to 'join Europe' right away, and resented any suggestion that they might not be 'ready'. But they had little experience of operating a market-type economy, and their countries had weak or no market-economy institutions in place. Hence all sorts of reforms were needed to build up the right institutional framework, and stage (b) greatly supported that process. Socialist era trade practices collapsed remarkably quickly, and a reorientation of trade towards EU markets proved surprisingly successful. Stage (c) built on this solid foundation, with the EU and other organizations – World Bank, IMF, OECD, EBRD, and others – providing diverse technical assistance to help the process along. The *acquis communautaire* ("that which has been agreed") is the full set of rules and regulations governing the operation of the EU and its member states, probably by now running to over 80,000 pages of text! Even before any formal negotiations got under way (stage (d)), most countries were busy incorporating much of the *acquis* into their domestic legislation and economic practice.

As a result, the negotiations got off to a good start, but still took several years to go through the more than 30 chapters of the *acquis*, agreeing on how to implement them, with various temporary and transitional arrangements. Most contentious were the chapters on agriculture, the budget, and regional policy (involving the EU's structural funds), though political chapters to do with justice and having a well functioning democracy remained areas of difficulty even post-accession. Once all chapters were 'closed' (i.e. agreed), the accession protocol could be drawn up and this then had to be ratified both by the acceding states, and by all the existing member states. Not surprisingly, even this final stage (e) could and did occupy a couple of years.

But we got there in the end, and I personally felt very emotional when the countries I've known and loved for several decades finally became part of the EU. That's where they belong, part of the European family (albeit, sometimes, quite a squabbling family).

Further East, in the countries of the former Soviet Union, shifting from central planning to a market-type economy proved even more difficult. There was little or no memory of life in a market economy, and developing the vital new institutions to support markets was a poorly understood process. The need for the state to guide institution formation in the public interest took years to gain broad acceptance, and in the meantime, the private sector often filled institutional 'gaps', sometimes in quite nasty and undesirable ways.

Thus when I first visited St Petersburg (then still Leningrad), we advised the city council to support the establishment of a court or arbitration body to settle business disputes between private parties. They clearly thought we were crazy, and had no interest in receiving such 'boring' advice. What then happened in the early 1990s, though, was a rather grisly process: many businessmen engaged in disputes with business partners and associates simply ended up shot! The murder rate in Russia rose for a while, quite predictably, and only fell back to 'normal' (if I may put it that way) when most productive assets had been 'successfully' redistributed (sometimes this was a polite way of saying, 'stolen'), and when new arbitration bodies and courts were gradually established *and made to work*.

Part of the problem here was that the institutions we take for granted in our own economies mostly work away quietly in the background of our lives, so it is easy to forget how important they are. How often do we pay much attention to property rights and contracts, for instance? And how much of what we do, economically, depends on trust, honesty, hard work and an underlying culture that supports these attributes. But not much about all this finds its way into most of our economics textbooks!

Now it's time to go out to meet a friend and colleague from the Central European University, also based here in Budapest, for a lunch of some of my favourite Hungarian food…….

[Editor's note: Paul Hare is Professor of Economics (Emeritus) at Heriot-Watt University, Edinburgh. There is a new publication edited by Paul Hare and Gerard Turley due out on 31st March 2013, ***Handbook of the Economics and Political Economy of Transition***, Routledge]

Economic Thought: papers under open peer review

Economic Thought, an online journal of the **World Economics Association** currently has eight papers under open peer review, a key feature of the journal's review process. The editorial team of *Economic Thought* looks forward to comments and a vibrant discussion on each of these papers. You are invited to read and comment via the web site at:

http://etdiscussion.worldeconomicsassociation.org/

Seven of the papers are on **ethics and economics**. This timely collection of essays will serve as a catalyst for one of the most important debates of our times:

1. **Avner Offer, "Self-interest, Sympathy and the Invisible Hand: From Adam Smith to Market Liberalism".** Modern versions of the invisible hand in rational choice theory and neo-liberalism are shown to be radical departures from the ethical legacy of Enlightenment and utilitarian economics.

2. **Stuart Birks, "No Ethical Issues in Economics?"** This challenges the presumption that there are no ethical concerns in conventional theoretical and econometric analysis by considering research that has an impact on perceptions and resulting decisions.

3. **Sheila Dow, "Codes of Ethics for Economists: A Pluralist View".** Any code concerning the behaviour of economists presumes a view of human nature and thus of professionalism. Socio-economic power in the profession also poses problems.

4. **George DeMartino, "Professional Economics Ethics: Why heterodox Economists Should Care".** The economics profession influences public policy, but it has never attended to the ethical burdens associated with influence over others. This paper sets out a case for ethics in economics, and the way it might be pursued.

5. **Karey Harrison, "Ontological commitments of Ethics & Economics".** 'Concrete analogies' underpinning dominant conceptions of ethics, politics and economics are used to show that these conceptions cannot be separated from questions of research and professional ethics.

6. **Christian Kellerman, Sebastian Dullien and Hansjörg Herr, "A Decent Capitalism for a Good Society".** Changes are needed to provide for the economic preconditions for a Good Society based on stable growth, equality and sustainability. A richer approach to the global crisis and to the dysfunctions of contemporary

capitalism is required.

7. **Riccardo Baldissone, "And the Real Butchers, Brewers and Bakers? Towards the Integration of Ethics and Economics".** This considers the dialogue between human rights and business, and the need for a broadening of the economic horizon, and redefinition of the status of economic theories to link with the discourse of politics.

The eighth paper is **Leonardo Abel Ivarola, Gustavo Leonardo Marques and Diego Mauricio Weisman, "Expectations-based Processes – An Interventionist Account of Economic Practice".** They state that the realm of economics is best understood as consisting of processes whose regular structure (if they have it at all) is not mechanical and guaranteed beforehand, but may be crucially influenced and successfully enforced by direct economic practice. They illustrate using a particular type of social processes, Expectations-Based Processes (EBP).

ET accepts article submissions from scholars working in the history of economic thought, economic history, methodology of economics and philosophy of economics. The journal aims to support and advance interdisciplinary research that investigates the potential links between economics and other disciplines as well as contributions that challenge the divide between normative and positive approaches. Contributions from outside the mainstream debates in the history and philosophy of economics are also encouraged. To contact the editors, email:

eteditor@worldeconomicsassociation.org

C. T. Kurien on Mainstream Economics

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C. T. Kurien was Professor of Economics at the Madras Christian College and subsequently at the Madras Institute of Development Studies. He has been National Fellow of the University Grants Commission and also of the Indian Council for Social Science Research. Retired from active academic work he now lives in Bangalore. His focus over many decades on the Indian economy has resulted in his being a long-standing critic of mainstream economics. He sees it as failing to provide a suitable basis for understanding the economics of India. He has published widely on this topic, with his latest book being Wealth and Illfare (Books for Change, 2012)

In this piece he answers questions posed by Stuart Birks as follows:

Why are you dissatisfied with mainstream economics?

What led you to recognise these shortcomings?

Supporters of mainstream economics sometimes accuse critics of failing to provide equally comprehensive alternative theories. How would you respond to such a comment?

Do you see distinctive Indian developments in economic thinking? If so what are their distinguishing features?

Q.1 Why are you dissatisfied with mainstream economics?

My decision to take up economics as the major field of study in College was made deliberately in the final year of High School in 1947-48. That was the year India became an independent country and there was a great deal of public discussion indicating that since political freedom had been achieved, attention must shift to gaining economic freedom, especially for the masses under bondage of poverty. It was my hope that through a study of economics I would be able to understand the causes of poverty and contribute to its eradication.

I became dissatisfied with 'mainstream' economics because I found it to be inadequate to deal with this crucial real life problem. 'Mainstream' economics appeared to be misleading the attempts to understand the nature of mass poverty.

Q.2 What led you to recognise these shortcomings?

The course in economics started out with Lionel Robbins' "scarcity" definition of economics and then moved soon to a discussion of individual preferences (first the utility approach and then the indifference curves). Then it moved to the theory of the firm and to distributive shares. There were several other papers as well. The accent was on theory per se, almost a kind of literature survey. By the time I took the Master's degree I was fairly familiar with economic literature. But I also became aware of two shortcomings. The first was a lack of clarity about the coherence of the many theories, particularly the micro and macro approaches. Second, and from my point of view more crucial, was that there was a big gap between the theories on the one hand and the matter of fact treatment of the Indian economy on the other. However, I had decided to continue in the academic line and so took up teaching. But what was expected of me was to pass on to the students what I had learned from my teachers! I became more restless about the disjunction between theory and real life issues. Meanwhile, discussions on planned economic development had started in the country. 'Overpopulation' was stated to be the main cause of 'underdevelopment' with low per capita income as its indication and raising the level of savings the main remedy. There were discussions on 'surplus labour', 'choice of techniques' etc. in academic journals. I felt that more training in economics would help me to enter into these discussions.

So, in 1958 I went to Stanford University for a doctoral programme. Although the Economics Department at Stanford at that time could boast of having Paul Baran, one of the few Marxist economists in the USA on its faculty, its reputation was as a leading Neo-Classical centre, with Kenneth Arrow as the star. Through the general equilibrium models I was able to see the logical rigour of the Neo-Classical system and more importantly, how it was able to bring together production, consumption and distribution: "the whole of the organon of pure economics thus finds itself unified in the light of a single principle" as Schumpeter (2006, p.880) stated.

My interest, however, was not in 'pure theory'. I wanted to see how it would help to understand real life problems. Because of the claim to 'universality' of Neo-classical economics, I tried to apply it to a deeper probing of the issue of 'surplus labour'. Rosenstein Rodan, Ragnar Nurkse and others had talked about the possibility of using surplus labour directly for capital formation, but had not indicated what exactly was meant by 'surplus labour'. Arthur Lewis had claimed that 'unlimited supply of labour' at the subsistence wage rate was the theoretical issue and had divided the economy into two 'sectors', one eager to utilize labour, and the other ready to supply labour.

But it was general equilibrium theory that pointed out that any factor that was in excess supply would have a zero price and would be like 'sands in the Sahara'. While that appeared to be formally satisfactory, it raised a problem if the factor concerned was labour because labour would not and could not exist 'like sands in the Sahara', but would have to claim a part of the output just to exist. This was my problem. There was not much in the literature to guide me, though I discovered a foot note in Schumpeter's *History of Economic Analysis* (staple diet for research scholars in those days!). Dealing with the Walrasian general equilibrium, the text said: "Walras did not emphasize, perhaps was not fully aware, that the unique solution where it 'exists' need not be economically meaningful…" (2006, p.972) and the foot note to the statement said: *"the occurrence of such a case, e.g. of the inability of some participants in the market to secure a 'maximum of satisfaction' above starvation point, might be treated as a special form of economic, if not of mathematical breakdown of the system".*

I did not have the mathematical competence to enter into that issue and was eager to complete my dissertation as I was on leave of absence from my College. Hence I simply followed that trail and decided to explore the survival strategies of those who constituted 'surplus labour'. I noted that 'self-employment' whereby workers used their labour and any non-labour resource that they had to eke out a living was the overt manifestation of 'surplus labour'. In order to counter the criticism that self-employment was a 'cultural' trait, the unwillingness of people to work for others, I put forward the view that self-employment resulted from the fact that the joint utilization of labour and non-labour resources could, under certain circumstances, yield a higher return than the sum of their returns separately. I used the empirical evidence of self-employment and the existence of a wide range of technologies within the same industry to support my argument and completed my doctoral dissertation *Factor Market Structure and Technological Characteristics of an Underdeveloped Country: An Indian Case Study (1962).*

I returned to India and in the midst of a heavy schedule of teaching and administrative responsibilities kept trying to purse the relationship of economic theory to the specific problem I had dealt with. I tried to study the celebrated Arrow-Debreu exposition of General Equilibrium Model, but found it tough. However, T.C.Koopmans' paraphrase of it in his *Three Essays on the State of Economic Science* was very helpful. Of special interest to me was his treatment of the 'survival problem'. Koopmans identified two basic assumptions of the model, first that the total quantity of goods produced (and resources to produce them) is sufficient for the survival of *all* participants and, second, that *each* participant has enough command over resources to ensure *his* survival. In the absence of the second assumption the "hard boiled" alternative would be "to assume instantaneous elimination by starvation of those whose resources prove insufficient for survival" , said Koopmans (1957, McGraw-Hill, p.62)and added that the economy set up by Arrow and Debreu "would be found best suited for describing a society of self-sufficient farmers who do a little trading on the side". A '*society of self-sufficient farmers'*; not individual maximizers! In other words, for the Arrow-Debreu general equilibrium to be realized, some specific conditions regarding the 'initial' distribution of resources are required.

In a paper on "Some Problems of Factor Allocations in an Underdeveloped Economy" written for an All-India Seminar organized by the University Grants Commission I made use of the Walras-Cassel model of general equilibrium and the 'survival problem' to argue that if the second basic assumption mentioned above was dispensed with and if there was 'surplus labour' then the system would not be in equilibrium. I also spelt out some empirically verifiable features of such a situation. I shared the paper with Arrow and we had several exchanges. I would like to quote a few passages from Arrow's letters. "I think you have put up a most interesting discussion in elucidating, with aid of modern resource allocation theory, the nature of the dual economy. In the course of the discussion, you contribute a number of insights on the empirically observable economic effects of this situation". But he went on to say that in terms of logical structure and completeness it was necessary to put in something like an 'existence price' (as I had done in my dissertation) because "whenever there is involuntary unemployment, one must admit the existence of some force preventing the wage level from falling in the presence of an excess supply of labour". In response I maintained that my main contention was that under conditions I had specified there could not be an equilibrium wage rate as such and that where resources and labour were jointly utilized it was not particularly meaningful to talk about 'wages' if it meant payment made to hired-in labour.

Arrow saw the point and said: *"Suppose now we …assume that some of the would-be workers are propertyless while others have property. Again at zero wage, there will still be zero supply of labour. However, … at any positive wage whatever, there will be a positive supply of labour from the propertyless workers, possibly even sufficient to meet the demand. If this is literally true, there would be no equilibrium wage strictly speaking. At zero wage there is an excess demand for labour, and at any positive wage an excess supply."* He thought such a situation would give rise to institutional arrangements for the utilisation of labour, and went on to say: "*I have puzzled for a long time on the question of the dual economy and I do not know that any theoretically coherent explanation exists.*"

However hedged that statement was, it was enough to convince me that the 'universality' that Neo-classical economics claimed was not in terms of its applicability, but only the logical statement that if a set of premises are accepted some inferences can be made. But if there was no theoretically coherent explanation for the real life features of a 'dual economy', it was not because of any non-economic factors, but because the 'initial' distribution of resources was not in agreement with what Neo-classical equilibrium required. I brought all these insights together in my ***A Theoretical Approach to the Indian Economy*** **(**Asia Publishing House, 1970) to argue that a conceptualization of the economy other than what Neo-classical theory provided and what 'dual economy' models assuming subsistence wages implied was necessary for a proper understanding of the nature of the problems of the Indian economy. I was able to show also that the distribution of non-labour resources was the essence of understanding India's economy and its problems. In teaching undergraduate courses I maintained that three related questions were required to understand an economy: "Who owns What?", "Who does What?" and "Who gets What?"

the 'universality' that Neo-classical economics claimed was not in terms of its applicability

[A more detailed account of the issues mentioned above can be seen in my: ***Rethinking Economics:*** **Reflections based on a Study of the Indian Economy**, Sage Publications, 1996, Ch.2]

I can now give a straight answer to the question posed: What led me to recognize the shortcomings of 'mainstream economics'. And the answer is the fact that after recognizing, but deliberately setting aside, objective and verifiable features of an economic system, it relies on untested and largely untestable aspects of human motivations as its basic premises. To one who set out to understand real life economic issues such theory is not helpful. Such theory, instead of serving as an aid to real life studies, easily becomes a tool for ideological propaganda.

There is a second aspect that showed me how totally removed 'mainstream economics' is from real life situations. It is the fact that that theory does not recognize intermediation as a prominent and significant aspect of economic interaction. Neo-classical theory's basic 'decision-makers' are 'consumers' and 'producers', (or 'households' and 'firms'). This, of course, is necessary to feature exchange as the main economic activity and market as the pivotal economic institution. But some questions arise. Why do households who own all resources lend them to firms and decide to work for them too – some kind of cultural preference to work for others? In any case real life situations show that markets rarely function without intermediaries; indeed, markets are the arena of merchants whose function is intermediation. Banks and financial agencies are intermediaries too. The meltdown of 2007 onwards has been the doing of intermediaries. But 'mainstream' economics has no place for intermediaries. Walras did the trick of generalizing barter, however illogical it was. But in his magnificent presentation of the economy as a set of simultaneous equations, there is somebody who performs the task of intermediation, in a negative sort of way -- the omniscient 'Auctioneer' who annuls all transactions till every participant achieves his/her preferences, and all is well!

As for theory, Marx recognized the intermediatory role of merchants as one of the earliest transformations from a 'society of self-sufficient farmers' who possibly did some barter on the side. John Hicks too realized the significant role of traders in his *A Theory of Economic History.*

The lack of recognition of the role of intermediation and the associated asymmetry of information in 'mainstream economics' is another shortcoming I found. There is a legitimate place for abstraction in theory. The problem with Neo-classical economic theory is that through its abstractions it has set up an economic universe almost completely removed from the real world and then claims it to be the 'ideal world' to be established here on earth!

Q.3 Supporters of mainstream economics sometimes accuse critics of failing to provide equally comprehensive alternative theories. How would you respond to such a comment?

I am aware that Neo-classical Economics has, within the English speaking world at least, the standing of 'mainstream economics'. And possibly it is being presented in class rooms as the basic, if not the only 'Theory'. It probably has greater pedagogic fecundity – simple diagrams and 'true to life' illustrations at the elementary level, but also mathematical precision and abstruseness at higher levels. But, surely, there are many other theoretical systems in economics -- Classical, Marxian, Keynesian, for instance; the Sraffa system, institutional economics, post-Keynesian economics and so on. Some of them claim to be comprehensive also. I also doubt whether a grand 'comprehensive' theory as an alternative to Neo-classical theory is what is required to understand real life economic issues.

I would add too that the real challenge in economics is to identify its field of enquiry, for which it is necessary to have a satisfactory notion of what the 'economy' is and to view it as an "Evolving Complex System" – the apt title of the proceedings of the Evolutionary Paths of the Global Economy Workshop (Santa Fe, 1987) – totally different from the equilibrium concept that Neo-classical economics is based on, and a much more challenging task too. It calls for emphasizing the 'social embeddedness' of the economy at all times, the identification of the basic units of the economy at different stages, the manner in which they interact and through which the transformation comes about. Experimental works of this nature, at once conceptual and empirical, are called for. In my ***The Economy – An Interpretative Introduction*** (Sage Publications, 1992) I have made a preliminary attempt of this kind. Part I of the book traces economic evolution in general, from a Rudimentary Economy to a Post-Capitalist Economy and Part II deals with the transformation of the Indian Economy from the pre-Colonial period till the end of the 1980s.

For the reasons indicated above, I would just dismiss the accusation contained in Q.3. (See also the last paragraph under Question 4)

Q.4 Do you see distinctive Indian developments in economic thinking? If so what are their distinguishing features?

Confining myself to the relatively more recent period in Indian history, I would recall writings during the British period that dealt with specific issues such as poverty, 'the drain', 'de-industrialization' etc. on specific topics and more comprehensive writings on Gandhian Economics on which some noteworthy works have come out in recent times as well. After independence most contributions have been 'policy oriented', such as the Mahalanobis Model in preparation for the Second Five Year Plan and the Vakil-Brahmananda counter to it that came to be known as the 'Wage-goods Gap' approach. A couple of volumes appeared a few decades back evaluating Indian contributions to economic thinking. Marxist economists have made significant contributions for a clearer understanding of the Indian economy. A noteworthy analytical contribution has been the treatment of 'interlinked markets' by Bharadwaj and Bhaduri. Strictly speaking these are instances of 'interlinked ***non***-*markets*' (or transactions) [1], variants of the problem I had raised in my dissertation and have continued to work on. A new book, ***Economics - A Primer for India*** by G.Omkarnath, in the preparation of which I was closely associated has just come out.

On the relationship between real -life economic issues and economic theories, let me return to my own experience.

After ***A Theoretical Approach to the Indian Economy*** I have concentrated largely on concrete aspects of the Indian economy that have remained largely unexplored. I did some work on the implications of the fact that the basic units that dominate the Indian economy are 'households' which are 'producing-consuming-saving-investing' entities, thus making the economy essentially 'informal' which 'mainstream' theory could only dismiss as being outside its scope, notwithstanding its claim to 'universality'! My main concern, however, has been mass poverty. In a piece with the title "*What is Growth?*" published late in 1970 when the Fifth Five Year Plan proposed to eradicate poverty by stepping up the growth rate, I argued that 'growth' achieved when property distribution was vastly unequal and the valuation of the product was done by the market, would simultaneously generate affluence for a few and poverty for the masses. In two major works done during that decade I tried to establish that claim conceptually and empirically. I have pointed out too that such 'growth' is the main cause for the growing inequality globally in recent decades.

While working on my latest book ***Wealth and Illfare*** (Books for Change, 2012) meant mainly for lay readers I have become convinced that much of real life economic problems can be analysed without any grand theory, but using the distribution of and control over resources, the nature of intermediation and the asymmetry of information as the central issues of enquiry. To me that has been something of a discovery. Isn't this what Georgescu-Rogen meant when he suggested proudly accepting 'the principle of practical opportunism' with an appreciable dose of 'delicacy and sensitiveness of touch' to arrive at a body of meaningful propositions for a given reality'? Isn't that a more valid procedure than striving for 'grand theories'?

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[1] Landlords, for instance, supplying water from their tube wells to small farmers on condition that the grain, after harvest will be sold only to them: thus it is essentially a non-market transaction. Other goods may be included also, fertilizers and even credit, so that several transactions get inter-linked via non-market operations.

We're all economists now...just don't expect difficult questions

By Graeme Maxton

One of the unexpected benefits of the global financial crisis is that economics has become much more widely discussed. Talk about economic theories, previously heard mostly in tutorial classes at universities, has moved into offices and bars and nearly everyone, from Delhi to Detroit, seems to have a view about the causes of the crisis, the value of quantitative easing and the fate of the euro.

In many ways, this surge in interest in the "dismal science" should be welcomed. Modern economic ideas lie behind many of the world's social and environmental challenges and, correctly tuned, they can also help us solve them. The debate about the role of economics in society should not be restricted to ivory towers, obscure econometric journals or library bookshelves.

To be useful though, this public debate needs to be well-informed. It should have access to accurate, timely and relevant information. People should understand what economics is for and what it can achieve. They should understand where it went wrong and why. And they should know where the discipline's limits lie.

Unfortunately, because much of the insight offered in the popular news media and specialist economic press is poor, the standard of public discussion is often woeful, particularly in the English-speaking world. It is generally better in continental Europe, where fundamental questions are frequently asked, even in the mass news media. But, for years, many American and British economists, politicians and journalists have only provided a simplistic and one-dimensional view of the discipline.

Readers of the British and American financial press (as well as those living in Australia, New Zealand, Hong Kong, Singapore, Ireland and Canada and a few other countries) have been encouraged to think that economics is a well-grounded subject, governed by a set of simple, almost self-evident, rules. It may not yet be a hard science, backed up with solid mathematical formulae, like physics or chemistry, but it is portrayed as a subject that is evolving in that direction.

Growth is the goal: it is not just desirable, but essential. Costs should be minimised and returns maximised in the short, medium and long term, regardless of the implications for society, jobs or the environment. The consumer should always be seen as "king", because growth requires rising consumption, even if that means scarce resources are wasted. State intervention is portrayed as being bad, even where it reduces duplication and improves efficiency. Competition is always shown to be good, even when it leads to oligopolies in food production, aviation, the auto industry, retailing, high-street banking, smart-phone operating systems, pharmaceuticals and computer software for example, when it creates companies that abuse their market power. Readers are also told that companies and markets should always be lightly regulated, even after this led to a catastrophic and entirely avoidable economic bubble. The "invisible hand" remains in charge because to try to guide it, they are told, would be "socialist," and bad. British and American readers have even been persuaded that a third round of quantitative easing will somehow stimulate a recovery and that austerity in Europe simply will not work.

There is almost no serious debate about the role modern economic ideas played in the creation of the financial crisis. Few bother to ask why, if this is a precise discipline, the crash was anticipated by only a handful of economists. As Hudson and Bezemer note in their WER paper (Vol 1 No 1), today's macroeconomics actually ignores the role the finance sector plays and yet, until now, few have bothered to ask why. Moreover, no one seems willing to discuss the logical flaw of the policy responses in the US and UK. The economic growth achieved in western countries during the last two decades was mostly down to ever-rising consumer borrowing, fuelled by easy bank credit. Real wages stagnated or fell. It was the borrowing that created the debt bubbles in the consumer and banking sectors, and the crisis. Governments responding to this by printing money do not address the problem. The over-leveraged balance sheets remain, making a return to consumption-driven growth impossible. The only sensible way to fix these problems requires Tolstoy's "two most powerful warriors" - patience and time.

The reason that this flaw is overlooked, of course, is not just because of a pro-Keynesian clique who still want to fight the last war. It is that the entire modern western economic edifice depends on the belief that there can be ever-rising consumption – and production. Like people addicted to drugs, businesses are dependent on continuous growth, to keep their profits rising and their shareholders at bay. Governments even seem to believe that growth is necessary for them to create employment. Without more consumption, there cannot be more jobs and there cannot be more progress.

This highlights another logical flaw. If economic growth depends on ever-rising production and, by definition, ever-rising use of resources, it cannot continue indefinitely when these resources are scarce. As John F. Kennedy's environmental adviser, Ken Boulding, so eloquently put it more than 40 years ago, "anyone who believes in indefinite growth in anything physical, on a physically finite planet, is either mad - or an economist".

Worse, by underpricing the raw materials we use today, by ignoring or under-valuing many of the economic externalities, we have been drawing down on future growth. Because modern economics has underplayed the costs of environmental degradation and the fact that our grandchildren will pay more in real terms for many of the depleted raw materials than us, we have penalised future generations and the planet to have the consumption-driven engine running faster now, breaking one of the ground rule of classical economics in the process.

The pressure for more open markets through WTO has also pushed aside any meaningful debate about the value of trade barriers in the short- and medium-term. Developing countries in Africa, South America and much of South-east Asia have been tricked into selling their raw materials on the cheap. Because tariffs have been removed, they will never be able to ...

European Association for Comparative Economic Studies

About EACES

EACES website:
http://www.eaces.net

In an International Conference held in Urbino (Italy) in 1989 a large number of European economists doing research in the field of comparative studies decided to build a new European association in order to further research and scientific exchanges on the subject.

The founding Conference was held in Verona (Italy) on 27-29 September 1990 with about 160 economists of 24 different countries participating. The First General Assembly of EACES elected Vittorio Valli (University of Turin) as President.

The general purpose of the Association is "to initiate and co-ordinate international collaboration designed to assist the advancement of theoretical and applied knowledge in the field of comparative economic studies in Europe and elsewhere". Its aims are purely scientific. The principal interests are theoretical analysis in the field and the comparative study of real economic systems. The areas concerned are the economies of East and West, North and South, as well as the economic interactions among systems and among regional areas, such as the EU. The Association is broadly based, providing a forum for all schools of analysis to exchange views and ideas.

Since its foundation the Association has organized twelve bi-annual Conferences, the last two being in Tartu (Estonia) in 2010 and in Paisley (Scotland) in early September 2012 (Conference website: http://www.uws.ac.uk/eaces2012/). It also organises specialised workshops and conferences. In the past two years, eleven EACES Workshops, Conferences or Special Sessions (jointly with other Associations) have been organised. They were, in 2011 in Brighton (Feb.), Moscow (Apr.), Yekaterinburg (Apr.), Bologna (May), Tutzing (June - July), Turin (Sept.), Miločer (Sept.), Tokyo (Oct.), Rome (Oct. 2011), and Perugia (Nov. 2011), and in 2012, Brunel-London (Mar.).

EACES has a journal, the *European Journal of Comparative Economics* (http://eaces.liuc.it) which, in nine years, has gained a significant reputation and has collaborated with other Journals (*Economic Systems, Post-Communist Economies*, *Comparative Economic Studies*, *Europe-Asia Studies*, etc.). More generally, scientific relationships with other international and national economic associations have been improved, with a special collaboration with the American Association for Comparative Economic Studies (ACES) and the Japanese Association for Comparative Economic Studies (JACES)

In addition, eight issues of the EACES Newsletter have been published and are available at http://www.eaces.net/public.html; a book series (e.g. *Studies in Economics of Transition*, Palgrave) has been developed; and an EACES Award for the best doctoral dissertation in comparative economic systems has been established (first awarded in 2012 to Bjoern Jindra).

Since the Scotland Conference, the following Workshops, Conferences or Special Sessions have been already realised or planned: Brighton/Tilton House (12-13 September, 2012), Rome (14 September, 2012), Ekaterinburg (4-5 October 2012), Matera (19 October, 2012), Birmingham (25 February, 2013), Moscow (April 2-4, 2013), Serajevo (November 2013).

The next bi-annual conference will be in 2014. Proposals to host the event have been received from Universities in Budapest, Poznan, Regensburg, Rome and St. Petersburg.

I am glad to invite all the members of the World Economic Association to become members of the European Association for Comparative Economic Studies (EACES). You can join online via http://www.eaces.net/member.html.

Marcello Signorelli (University of Perugia, Italy)

(...cont, from p.10)

...compete with developed countries in complex manufactured goods in the long term unless, like China, India and South Korea, they erect non-tariff trade barriers to protect their emergent industries.

Most obviously of all, almost no one has asked why the growth of the last 20 years has actually increased income inequality globally when modern-day economists had promised it would do the opposite.

The poor level of discussion in the English-speaking news media about the sources of the west's economic misery has also encouraged politicians to prescribe the wrong medicine. It has helped them pretend that there is a quick fix, even now, five years into the crisis when there is little to suggest that their policies are achieving very much at all. Some even pretend that the crisis is mostly over. This means that the citizens of many countries in the western world are not just ill-informed. They are also badly ill-prepared for what is to come.

Graeme Maxton is a Fellow of the Club of Rome and the author of *The End of Progress, how modern economics has failed us* (Wiley 2011).

The political economy of economic metrics

Online WEA conference January 28 to February 25, 2013

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

Enormous amounts of money are spent measuring among many other things GDP, employment, wages, unemployment, inflation, consumer and producer confidence, debt, money, current accounts, interest rates, and the price level. These metrics play a role in economic policy and are part of 'the language of power'. Are we measuring the right metrics? Do we measure them in the right way?

Special attention will be given to interrelations between the concept of a variable (what is 'labor', what is 'money', what is 'income'), the definition of a variable (how do we define 'labor', or 'money' or 'income'), the 'operationalisation' of a variable (how do we change a general definition of, for instance 'forced labor', into a measurable concept) and actual measurement (how do 'we' measure ' forced labor').

We would like to see discussion about decision makers and their motivations, and the activities of economists as researchers. Might those economists who aim to construct new metrics and indicators learn something from economic historians, producing their own data and critically surveying sources and methods – should this become a standard part of all economic work?

This conference encourages answers to these and related questions from a broad range of perspectives and seeks to foster thoughtful, pluralistic conversation.

Submissions are invited now

We welcome contributions from economists and non-economists interested in these issues.

The deadline for submitting papers is January 7, 2013

Papers should be no longer than 10,000 words. For other details regarding guidelines for manuscripts please see:
http://peemconference2013.worldeconomicsassociation.org/submit-a-paper/

Papers will be made available for comments from January 28 to February 25, 2013.
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 Political Economy of Economic Metrics Conference by simply leaving an e-mail address, and are invited to **participate in the discussion from** January 28 to February 25, 2013.

Please go to the conference website to register (no fee required):
http://sustainabilityconference2012.worldeconomicsassociation.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.

For questions about this conference, please contact **Merijn Knibbe** via the conference email address

wea.peem2013@gmail.com

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