ABSTRACTS

The following are the abstracts that were supplied by the authors. They are in alphabetical order for the first named author.

Andrew Brown

Developing Realistic Methodology: How New Dialectics Surpasses the Critical Realist Method for Economics and the Social Sciences

This paper argues that 'new dialectics' provides an adequate methodology for economics and the social sciences. The argument is advanced via a critique of 'critical realism', an important rival to new dialectics. Critical realism argues that the root mistake underlying orthodox methodology, termed the epistemic fallacy, is a failure to sustain adequately the distinction between ontology and epistemology, resulting in the relative neglect of ontology. By overcoming the fallacy, critical realists claim to provide an adequate methodology for economics and social science. The paper argues that critical realism goes too far in the opposite direction to the epistemic fallacy. Critical realism neglects the intrinsic links between ontology and epistemology so fails to provide an adequate methodology. However, critical realism must not, according to the argument, simply be rejected in toto if an adequate methodology is to be achieved. Instead it must be surpassed or transcended. The recent resurgence of a new dialectics is argued to provide just such a supersession because new dialectics affirms the intrinsic links between ontology and epistemology without reducing the former to the latter. the implications of this transcendence are illustrated via a comparison of the respective interpretations of Marx's Capital offered by critical realists and new dialecticians.

Victoria Chick (University College London)

Why the Euro Splits British Political Parties

On almost every issue one can think of--free school milk, the rights of hereditary peers, immigration control, hanging, abortion, inflation, unemployment--there is a natural divide between the political left and right. Therefore it is a matter of enormous interest that the issue of the single currency in the EU, and indeed the whole European Union project, splits both Labour and the Conservative party. The split in the Labour party is more difficult to perceive, but it is nevertheless there. The arguments concerning the euro are underdeveloped and confused but when they are sorted out along the lines of natural left, natural right, pro and anti, a remarkable symmetry is found which explains why it is that both Labour and the Conservative party are divided over this issue. The scheme developed in this paper makes the issues clear, thus allowing them to be developed as they should be for public debate.

Keith Cowling (University of Warwick) and Philip Tomlinson (University of Warwick)

Japan's Strategic Failure

The aim of this paper is to provide an alternative insight into Japan's current economic problems. In doing so, we concentrate upon the role played by the economy's central actors, namely Japan's transnational corporations. Since the early 1980s, Japan's transnationals have become dominant players in the global economy, with a higher rate of overseas physical investment than any of their international competitors. However, we argue that this pursuit of global interests has been sub-optimal for Japan's domestic economy. In particular, the increase in outward FDI flows may not only divert new investment from Japan's industrial regions, but has also led to a reduction in the demand for intermediate goods supplied by Japan's small keiretsu firms who have become 'isolated' due to the increasing trend towards overseas production. The wider consequences are also evident in the significant rise in Japanese small business failures, declining industrial productivity and falling manufacturing employment. This leads to concerns about a 'hollowing out' of Japanese industry and long term industrial decline. We see the possible 'hollowing out' of Japan's industrial base in terms of a 'strategic failure', a situation which may arise as a consequence of strategic decisions on key economic variables, such as investment, output and employment, being made by elite, centralised corporate hierarchies whose interests conflict with the broader objectives of society. In this paper, we highlight the historical course of Japan's strategic failure, making observations and finally offering suggestions for future economic development.

Paul Downward (Staffordshire University) and Andrew Mearman (University of Lincolnshire and Humberside)

Realism and Econometrics: Alternative Perspectives

This paper assesses the role of econometrics in heterodox approaches to economics which seek philosophical guidance from a realist perspective. We recognise that while realism is widely drawn upon in the heterodox literature, beneath this commonality lies much variety. We identify three main types of Realism found in economics. First, we examine Critical Realism exemplified in economics by Tony Lawson. We note that there are several variants within this strand, some from outside economics, which make significant contributions. Second we identify the Babylonian Realism of Sheila Dow primarily discussed in Post Keynesian economics. Finally, the Realism outlined by Maki. The paper examines the position of these variants on quantitative methods and identifies a spectrum of approaches to econometrics in Realism. This encompasses those which advocate critical rejection of econometrics (for instance Lawson) as well as those arguing for the use of a full range of econometric techniques in the formulation and assessment of theory. The paper compares these positions and discusses the potential for a single position. It tentatively argues for a definition of Realism acceptable to all the variants of Realism. It then goes on to argue for a position on econometrics which would be acceptable to this new definition of Realism. That position is that given the empirical nature of Realism, a position of total rejection of econometrics is untenable and that careful and case-specific application is preferable.

Stephen Dunn (University of Leeds)
Wither Post Keynesianism?

Contemporary writers have been keen to herald the demise of Post Keynesian economics. In this paper we argue that those that expound the view of the demise of Post Keynesianism are mistaken and misconceived. The source of this confusion is primarily methodological. Nevertheless we acknowledge that Post Keynesianism must bear some of the responsibility for this state of affairs, which is rooted in the early genesis of the Post Keynesian label. Post Keynesianism is, however, at a crossroads. Serious choices must be made as to its future direction. We conclude by outlining some of the opportunities that present themselves to Post Keynesianism that will aid its continued development and prevent its demise.

Giuseppe Fontana (Leeds University)
Keynes and the 'Nature of Economic Thinking': the principle of non-neutrality of choice and the principle of non-neutrality of money

In the last two decades there has been a flourishing of writings on the methodological approach of Keynes. One of the main outcomes of that outcome of that literature is the idea that continuity between Treatise on Probability (1921) epistemology and the method of Keynes' economic writings existed. The idea is that Keynes along his career adopted a particular method of investigation based on the close connection between theory and practice. Whereas it is not difficult to agree with those ideas, the danger of a full commitment to such an approach is also evident. Keynesian economics in recent years has been defined as "a way of thinking" (Samuelson). Keynesian economics seems trapped in a never-ending debate on the methodological foundation of modern economics. Whereas broad interpretations of Keynes' work may have a role to play for future economics the main argument of this paper is to propose a return to the theoretical foundations of 'a truly Keynesian economics'. In the main economic writings of Keynes it is possible to discern a body of beliefs, which is (a) consistent in its own terms and (b) susceptible of being used in the explanation of different realities. That body of beliefs is grounded on (1) the principle of non-neutrality of choice and (2) the principle of non-neutrality of money. Both principles were essential parts of the core of Keynes' Treatise on Money (1930) and General Theory (1936), and should be used as the hard core for future development of Keynesian economics at the methodological level as well as at the theoretical level.

Alan Freeman

The Emperor's Tailor: The Economists and the Crash of '98

The paper examines the profession of economics in the light of its open disarray in the face of the financial crash of 1998, set beside its attitude to Marx, one of the principal founders of the subject. We subject the profession to a rigorous theoretical and historical inquiry, examining both its reaction to the empirical facts of its failures, and the manner in which its theoretical categories express the material interests to which it is subjected. the aim is not dismiss the profession and its products as simple apologetics, but to uncover the internal structure of its thought and to propose an alternative, critical standard of scientific conduct for economic enquiry under a market economy.

John Grahl (University of North London)

The Recent Work of the Regulation School

The French regulation school is an important grouping of heterodox economists. Their approach draws on both Marxist and Keynesian traditions. While they emphasise the importance of "mediations" ("structural" or "institutional" forms) to the efficient functioning of a capitalist economy, they also stress the historical contingency of any successful array of such forms. Most of their contributions relate to a reading of current transformations of advanced economies in terms of a crisis of Fordism. Here Fordism (Taylorist labour processes with mass production technologies) is understood as an accumulation regime whose destabilisation necessitates a renewal of the mode of regulation or institutional complex. The present paper traces recent output by some of the most significant members of the school (B. Coriat, A. Lipietz, R. Boyer, P. Petit, M. Aglietta) through the five canonical structural forms--industrial organisation/price-setting; labour relations and wage-setting; patterns of state intervention; monetary policies and credit allocation. It then examines the contribution made by the regulationists to debates on industrial location, globalisation, the state and international competitiveness. Although the general approach is regarded as fruitful, it is suggested that the school has tended to over-emphasise "real" aspects of institutional development and that this has led to errors in the assessment of current changes. The correction which is necessary may be to reintegrate the relatively neglected monetary side of the original theory into its applied analysis.

Douglas Mair (Heriot-Watt University) and Tony Laramie (Merrimack College, USA)

A Kaleckian Theory of Taxation

The paper presents a Kaleckian theory of taxation. By integrating Kalecki's theories of taxation, income determination, income distribution, investment, business cycle and growth, a dynamic, macroeconomic theory of tax incidence can be developed. Unlike orthodox public finance theory, a Kaleckian model achieves a proper integration of the micro- and macro-elements of tax incidence. The paper provides an alternative approach to conventional Keynesian fiscal policy by demonstrating the feasibility of achieving stabilization and growth objectives by altering the structure of taxation within the framework of a balanced government budget. Changes in the structure of taxation operate by affecting the rate of depreciation and/or the level of profits. The macroeconomic effects are highly sensitive to tax shifting which occurs through the response of business markups to changes in the emphasize the importance of changes in income distribution in determining the macroeconomic outcomes of fiscal policy. Recent changes in income distribution in the UK confirm a significant shift in favour of 'capitalist' income associated with a substantial increase in the APC out of 'capitalist' income. The paper concludes by considering some policy implications.

Wendy Olsen (University of Bradford)
<u>An Open-Systems Interpretation of Simultaneous Equation Models: Realist Theory and an Example Using Farm-Level Data</u>

Economists analysing cross-sectional and panel data usually presume that the data represent a closed system. Relaxing the assumptions that distinguish closed from open social systems, I find that the interpretation of statistical results must be less inferential and less firm than is conventionally the case. Specific findings relate to omitted-variables bias, differences between snapshot data and a changing society, and restricted to behavioural (action) outcomes. I develop path analysis models for the study of farms as small enterprises. Techniques that link up logistic regression with linear regression go beyond what is presently offered by standard software. A tentative and fallibilistic interpretation is offered of some south Indian village household data. Potential applications of such models occur widely in cross-sectional economic data analysis.

Michael Pitt (Heriot-Watt University)
<u>The Use of Urban Space in the Capitalist Environment</u>

The capitalist urban centre comprises both commercial and recreational areas which may be considered as complementary. This paper examines the use of urban space outside the process of direct commodity production and labour power reproduction. The homeless give the appearance of challenging the use of space perceived as public and democratically run space by using it in the reproduction process. In fact the street appears as a world on its own, as self-sufficient in all the needs of the individual belonging to the group. In this way the group becomes isolated from the rest of society. Consequently homeless people themselves are commonly seen as the problem and not the symptom, even within their own former peer group. The highly visible body of homeless people acts as a deterrent to any form of subversion. This paper further examines the effect of the homeless underclass on the circuit of capital and shows that far from being an economically separate underclass the effect of the existence of a non-labouring class has a potentially dramatic effect upon the other class relations that exist in the advance capitalist environment.

David Saal (Middlesex University Business School)
A Reassessment of the Impact of Defense Procurement on Manufacturing Productivity Growth

As the 20th Century ends, technologies originally developed for defense purposes such as computers and satellite communications appear to have become a driving force behind economic growth. Paradoxically, almost all econometric models suggest that the largely defense-oriented federal industrial R&D funding that helped create these technologies had no discernible effect on industrial productivity growth. This paper addresses this paradox by stressing that defense procurement and hence federal R&D expenditures were targeted to a few narrowly defined manufacturing sub-sectors that produced high-tech weaponry. Panel data analysis employing disaggregated data from the NBER Manufacturing Productivity Database and the BEA's Input-Output tables then demonstrates that defense procurement amounted to a highly targeted industrial policy benefiting only a few small sub-sectors of the economy.

Mark Setterfield (CEPREMAP and Trinity College, USA)
Financial Fragility and Business Cycles in a Model of Shifting Equilibrium

In Keynes' model of shifting equilibrium, disappointed short run expectations affect the state of long run expectations and hence, through the effects of the latter on the investment function, the point of effective demand. This paper develops a model of the shifting equilibrium system in which self-reinforcing changes in nominal income are "punctuated" by discrete changes in the willingness of commercial banks to grant the credit necessary to finance investment. This, in turn, creates turning points and hence ultimately "Minsky cycles" in nominal income whose debt/equity ratios vary directly, in the short run, with the value of nominal income. Hence commercial banks, as "gatekeepers" of the credit creation system, change their willingness to create credit in response to any given notional demand for credit as the leverage of the private sector reaches certain critical values. This means that an independent role for commercial banks in influencing the general level of economic activity emerges from a model based on an otherwise accomodationist concept of the endogenous money supply. An important feature of the model is, therefore, that it reconciles behaviour on the part of commercial banks that is in keeping with the spirit (if not the letter) of Kalecki's principle of increasing risk with the accomodationist notion that changes in the general level of interest rates are determined solely by the central bank.

Alan Shipman (Judge Institute of Management Studies)
The 'Split' Decision Theory of the Firm: Strategy protection, programming, and what top managers do when the two converge

Traditional 'organisational design' theories suggest two contrasting ways in which businesses modify employees' actions. Higher managers, taking 'strategic' decisions, use enhanced information to choose from a wider range of options (than an isolated entrepreneur). The firm's market power allows decisions in pursuit of long-run or group-wide objectives, by relaxing immediate competitive pressure. Resultant actions are transformative, adapting the firm to those changes in technology and (product, capital, labour) markets which it cannot combat or control. In contrast, production and administrative staff, taking 'operational' decisions, make simplified choices from a restricted range of options. Resultant actions are conservative, absorbing minor shocks so as to preserve behavioural stability (and leave higher management free to focus on strategy). Success at these 'programmed' tasks is readily measurable, and their routinisation makes under-performing employees easy to replace, by other employees or by machines. This paper argues that intensified product-market competition (reflecting technical change, deregulation, trade liberalisation, capital and technology export, cheaper transport and communication), and capital-market deregulation, have eroded top managers' scope for strategic action. At the same time, increased need for exercise of workplace skill and discretion has reduced the scope for 'programming', and increased employees' resistance to it. Some companies are shown to have responded by seeking to regain market power (by horizontal and vertical integration/coordination, entering less contested markets, securing re-regulation). Others are relying on labour-market deregulation to 'program' higher-level tasks, or 'empower' existing programs without compensating real wage growth.

Jan Toporowski

Mathematics as Natural Law: The Kantian Critique of Formalism in Economics

Formalism in economics regards mathematics as a natural law to which reality conforms when its axioms or assumptions hold. Post-Keynesians and Critical Realists recognize that determinacy or closure means that determinate models cannot describe an indeterminate or evolving reality. However, in formalist economics, the empirical testing of models is done econometrically. This paper argues that the statistical data used in econometrics are the outcome of classifying observations in accordance with taxonomic theories. Therefore, econometric tests can only be valid if an economic model is independent of the taxonomic theory used to produce the statistical data. The paper concludes by arguing for a more inductive economics.

Richard van den Berg and Gurjeet Dhesi

The First Mathematical Analysis of Dynamic Equilibrium: C.-F.-.J d'Auxiron

The work of Claude-Francois-Joseph d'Auxiron is seldom noted by historians of economic thought. This neglect is unfortunate because his book Principles de tout gouvernement (1766) contains a highly original dynamic analysis of inter-sectoral exchanges and economic growth. Auxiron, engineer by training, wrote in a period when the first attempts where made to study the market economy as an autonomous and interrelated whole. It were the first writings of famous theorists such as

Richard Cantillon (1755), Francois Quesnay (1757-67), and Adam Smith (1776) that were largely responsible for the foundation of the new discipline of political economy. Auxiron's influence on the formation of this discipline was close to zero. Nevertheless, some aspects of his economic theory are rarely found in the economic literature of the time. Central to Auxirons theory is a dynamic analysis describing the re-establishment of equilibrium after the economy experiences a sectoral disequilibrium due to the occurrence of an external shock. He presents calculations which suggest a process of oscillation towards a new equilibrium value. This paper discusses Auxiron's unique and scarcely known analysis.

Mike Williams (De Montfort University)
<u>Myth, Method and Money in the Marx-Hegel Dialectic</u>

Discussion of the conceptualisation of Money is used as a case study to illuminate the nature of a 'new' dialectical method for critical political economy. Money 'makes the (capitalist) world go around', yet economics treatment of it tends to be banal, empirically unsupported, paradoxical or mystical. As for 'dialectics', common-sense economists would not dissent from The Devil's Dictionary: "Dialectics is a Marxist's excuse when you catch him lying". I hope to persuade you that dialectics can be the basis of a method for critical political economy that escapes Hegel's grandiose mysticism and facilitates the interpretation of our abstractions and models. It is the attribution by Hegel to objective reality of the logical attributes of truth-value and scope that properly belong to logical propositions that marks Hegel's 'absolute idealism'. The traditional dialectical materialist inversion of Hegel's ontology unfortunately leaves us with a no less mysterious self-moving objectivity. For the new dialectics, the objective as we can have it in thought is thereby determined both by what there is and by our systematic attempts to conceptualise it. Social objectivity is reproduced and transformed by subjects' systematic action, that is itself informed by their conceptualisation of that social system and the constraints and opportunities it offers (for a simple example, think of self-fulfilling predictions in financial markets). The key categories of the capitalist system, Money and Value, are structurally imposed upon subjects yet also reproduced/transformed by their economic actions. What Marx got from Hegel concerned the role of subjectivity. What he did with it was to transform Hegel's notion of divine subjectivity into human social subjectivity.

Jane Wheelock (University of Newcastle upon Tyne)
<u>Who Dreams of Failure? An Economic Analysis of Insecurity</u>

I am alone, exposed
In my own fields with no place to run
From your sharp eyes. I, who a moment back
Paddled in the bright grass, the old farm
Warm as a sack about me, feel the cold
Winds of the world blowing. The patched gate
You left open will never be shut again.

R. S. Thomas, Invasion on the Farm

The insecurity of the livelihoods made from the Welsh hill farming seared through the poetry of R. S. Thomas even in the apparently prosperous mid-1950s. More than a century earlier Marx and Engels had warned in The Communist Manifesto that "Constant revolutionising of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation" mean that "all this is solid melts into air". Do capitalist societies generate insecurity by their very nature? Probably most social scientists and economists would agree that they do, but there are profound disagreements about its significance. The bulk of economists argue that capitalism thrives on a degree of uncertainty, seeing insecurity in terms of opportunity. For it is uncertainty that opens up possibilities for profitable investment by business entrepreneurs. Capitalist accumulation and economic growth are the outcome. True, the operation of markets can result in considerable insecurity for sectors of the population--even whole countries--for periods of time. But market forces will ensure a spontaneous movement to a new social order within reasonable time, as economic equilibrium is reestablished. Insecurity of livelihoods is an unwanted, but necessary by-product of a market system. Others (including Karl Polanyi and many of those economists who might prefer to call themselves political economists) argue that the insecurity generated by capitalism has important economic, social and individual effects that need to be addressed. They want to ensure that economic activity serves social as well as economic purposes. Insecurity at what expense? At whose expense? This paper starts from a history of economic thought perspective, and goes on to argue that the economic down-side of uncertainty and insecurity has been insufficiently investigated by economists.