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Book of Abstracts

"Behind Closed Doors: The Political Economy of Central Banking in the U.S."

Stephanie Bell-Kelton

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The paper will discuss the major changes in central banking on the theoretical front - with the triumph of the "new consensus" in macroeconomics - as well as institutionally (new policy goals and instruments). Using transcripts of the Open-Market Committee's private meetings, I will provide a critical appraisal of what have been the major changes and innovations both in the theory and practice of central banking in recent years. The essential point is to provide those interested in the political economy of central banking with an alternative conception of what goes on behind closed doors.

The paper is scheduled to be published in the June 2005 issue of the IJPE.

Emmanuelle Benicourt (Ecole des Hautes Etudes en Sciences Sociales, Paris) "The contribution of Amartya Sen's capability approach in dealing with heterodox issues"

The paper aims at assessing the contribution of an approach which both tries to overcome certain limitations of the current orthodoxy and which goes beyond the traditional academic boundaries that define social science disciplines today and: Amartya Sen's capability approach.

First, with the capability concept, Amartya Sen aims at providing a new conception of "well being" that goes beyond the limitations of standard economic approaches of, among others, poverty and inequality. Indeed, he criticizes approaches that focus on the means of well-being and not on the well-being achieved by individuals through these means (i.e. equal means in well-being may not lead to the equality in achieved well-being, since individuals differ in body size, metabolic rates, social environments etc.). Sen also criticizes approaches relying on "utility" because they concentrate on the mental reactions of individuals and not on the effective or objective well-being they achieve (i.e. poor and oppressed people may have learned to be satisfied with their lot). The capability concept is presented by Sen as an alternative to these criticisms.

Second, Amartya Sen's approach also aims at reintroducing ethical considerations in economic analysis. Contrary to the standard economic "rational fool" which Sen vehemently criticises, agents in his theoretical system are presented as "sentient and moral beings". With the capability concept (and the recurrent references to "freedom" in its definition), Amartya Sen clearly bases his theoretical construction on philosophical and ethical grounds.

In order to assess the contribution of Sen's approach to heterodox issues, a first part of the paper will present the debates Sen refers to when he presents, and develops, the capability concept. An emphasis will be placed on his criticism of utilitarianism, which is presented by Sen as both the incarnation of the standard conception of well-being, and as a long standing ethical current. With references to utilitarian philosophers (such as Bentham, Smith and Mill) and to "utilitarian economists" (such as Cecil Pigou), we will see that Sen confuses two distinct conceptions of utility, which relate to very different analytical perspectives (i.e. "utility" as an ethical criterion and "utility" as a positive assumption).

Second, the theoretical construction – in terms of fonctionnings and capabilities – Sen proposes will be examined. We will see how it departs from the standard economic analysis framework (i.e. including human diversity in his conception of well-being) and in which ethical perspective it is placed (i.e. refusal of monist approaches, such as utilitarianism, in favour of a pluralistic ethical framework).

As a conclusion, we will examine the contribution of this theoretical construction to alternative economic analysis and policy recommendations. First, we will see how both disciplines (i.e. ethics and economics) are combined in Sen's theoretical system. Second, the limitations implied by his pluralistic ethical perspective will be highlighted, particularly in terms of the policy recommendations they (do not) lead to.

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CLASS, POLITICS AND PARTICIPATORY RURAL TRANSFORMATION IN WEST BENGAL

Based on primary field survey and secondary sources of information, this study analyses the West Bengal experience of participatory rural transformation as a direct fall out of the changing class structure of the rural society and the rise in class-consciousness among the rural poor. We use Utsa Patnaik's (1976) labour exploitation criterion in order to rank the rural households according to the economic classes, side by side the standard acreage groupings. This study strongly refutes the neo-liberal and neo-populist idea of the social capital and the civil society as a source of 'people's participation'. The myth of the participation of the people is imagined, as if the 'people' is an undifferentiated, homogenous and rather a de-politicised community. In our view the 'people's participation' is a meaningless concept, since the 'people' as a category includes different classes with conflicting interests. There was a populist theoretical tradition that propagated the idea of an undifferentiated rural *community* undermining the highly differentiated *class* character. This includes, Chayanov-Sen idea of the homogenous peasant economy, the Subaltern theorists' idea of the 'subaltern' as a nearly homogenous community against the 'elite' and the neo-classical theorists' flat generalisation of the traditional economy against the modern one. The neo-liberal idea that the participation of a depoliticised and homogenous group of 'people' in an atmosphere of inactive / apathetic state is not very far from the above ideas in favour of a monolithic rural society. The convergence of the two apparently contradictory ideas is observed, where the neo-liberal (World Bank) concept of social capital almost synchronises with the 'radical' post-Marxist formulation of civil society.

The process of participatory rural development in West Bengal started in late seventies, long before the neo-liberal and neo-populist put a special emphasis on participation. This study seeks to analyse the interrelation between the village level class structure in a differentiated economy and the participation of different classes into the political process of decision-making. Since the Indian independence, a process of social differentiation took place in West Bengal, and during this transformation it gave rise to class consciousness and class struggle. This was the foundation on which *Panchayat Raj* (local level self-administration) was established in West Bengal and Kerala. As an institution the *Panchayat Raj* is the doorway of state intervention. According to some scholars the *Panchayat Raj* was the key factor in breaking the 'agrarian impasse' in West Bengal and as a result rural poverty declined significantly (Sen & Sengupta, 1995, Mukherjee & Mukhopadhyay 1995, Sen 1996). However, in our view the *Panchayat Raj* has so far been failed to initiate the second phase of institutional reform in the state on the basis of some unfinished agenda, like, health care, education, gender justice and above all co-operative movement. This partial failure is again due to the fact that the issue of short-term electoral benefit is given priority undermining the class struggle.

POLISH ECONOMICS AND THE KEYNESIAN HERITAGE

Abstract

Since the beginning of transition in Poland one could observe two alternative attitudes referring to leading economic paradigms. On the one hand, the followers of a widely viewed neoliberal stream suggest an increased economic competition governed by an 'invisible hand'. In their opinion, market mechanisms are able to solve a great part of the problems typical of the system under transition. On the other hand, there are advocates of interventionism who claim that liberalism is too risky in the case of Poland, where market mechanisms are still imperfect. They often refer to the countries development of which is commonly attributed to the 'Keynesian policy'. Therefore, the interventionists claim that employing Keynes' theoretical achievements in Polish environment would result in equally favourable economic effects. However, such an opinion reveals two fundamental weaknesses. First, it is a mistake to identify Keynes' attitude with Keynesians' views. Already the first stage of the evolution of Keynesianism differed significantly from Keynes' own intentions. Subsequent years yielded increasing number of various interpretations that had often little in common with their origin. In the face of such broad and heterogeneous opinions included among Keynesian stream it is necessary to specify the term 'Keynesian policy'. Second, little attention is often devoted to careful consideration whether the circumstances Keynes was interested in actually occur. Post-war history shows clearly that such unrestricted interpretations resulted in many misunderstandings and rather unconcerned application of Keynes' practical advices to inadequate situations. In the 1960s the consequences of such a stroke were severely experienced by many countries.

One of the most striking features of the Polish literature is that those economists who postulate some forms of intervention are termed as Keynesians. Even if they do not explicitly allude to Keynes or mention such quite different examples like social market economies they are labeled as exponents of Keynesian thought. Since Keynes is commonly treated as an architect of the theory of interventionism, all the proposals of undertaking some actions by the government are seen as representing Keynesian point of view.

The purpose of the paper is to depict Keynes' reflections on the compulsion and means of guiding economic policy and compare them with those Polish economists' attitudes who are commonly judged as Keynesians. It enables to reveal how Keynes' theory is perceived and what does the term 'Keynesianism' mean in Poland.

SRAFFIAN INDETERMINACY IN A GENERAL EQUILIBRIUM MODEL

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The crucial difference between the classical and neoclassical schools of economic thought lies in their approaches to the distribution of income between wages and profits. In neoclassical general equilibrium models, the aggregate market forces of demand and supply determine the equilibrium distribution of income, relative prices, and the rate of growth of capital stocks.

In the theoretical approach of the classical economists to distribution, the real wage rate and the rate of profit can not be symmetrically and simultaneously determined on the basis of the relative scarcity of labor and capital. One of the two distributive variables is explained independently from both the social product and the other distributive variable and considered as a parameter in classical models; the other one is considered as an endogenous variable determined as a residual. The indeterminacy of the real wage and interest rates is called Sraffian.

Neoclassical theorists contend that Sraffians commit two key mistakes. The first one is a failure to distinguish commodities by date at which they appear. The second mistake lies in the omission of demand functions and market-clearing conditions. Orthodox economists typically believe that if these two shortcomings are corrected, determinacy of equilibrium is restored.

Our purpose is to propose a general equilibrium model which is based on assumptions that would be accepted by neoclassicals, but exhibits Sraffian indeterminacy. Unlike previous discussions, the emphasis is not on the assumptions on technology but on demand. The key role is played by the properties of the intertemporal maximizing behavior of consumers. We assume that the subjective discount factor of a consumer is, other thing being equal, an increasing function of his well-being, but, at the same time, we admit that some other factors can influence time-preference rates. Our assumptions are closely related to the Keynesian idea that the saving rate tends to rise with income that is that the consumption function is concave.

We show that steady-state equilibria in our model exists and are indeterminate in the sense that the set of all equilibria is a continuum. In the one-good version of our model, this set can be parametrized by an index of inequality. We study the dependence of national income on this index. Though, in general, this dependence is not unambiguous, under some reasonable additional assumption, it has an inverted U-shaped form.

ABSTRACT

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Title: Cultural Attitudes and Economic Development: arguments for a pluralist political economy of development

Mainstream economics does not consider important to study culture because individuals are all alike. In fact individualism as a methodology has to ignore culture; otherwise it would have to admit the existence of some entity above the individual, with influence upon his decisions. Non-economic factors, therefore, are not decisive and they should not be taken into account in development studies.

Less traditional views of economic development, on the contrary, incorporate research on the interaction of economic and non –economic factors, the latter including, among others, attitudes towards life, work and authority, patterns of kinship and religion, and cultural traditions. More recently, and strangely enough, a large set of economists who share a great amount of what can be considered the pillars of the mainstream paradigm, have shown considerable interest in the interaction of culture and economic development.

The main effort of these economists has been to show how some cultures constitute an obstacle to the development process. In this paper I will try to propose alternative views on the same issues and conclude that if culture matters it doesn't matter in that way.

The first conclusion on this issue is that such renewed interest for cultural determinism, is coherent with the mainstream diagnosis on underdevelopment contrary to the theoretical expectations. Indeed, although mainstream economics is supposed to pay little attention to non economic factors in development processes they share with this new wave of cultural determinism the idea that underdevelopment is a phenomenon essentially originated endogenously. In other words, what cultural determinists say is that the third world population, with their beliefs and their attitudes are essentially liable for the poverty in which they live, burying the idea of exogenous determinants of underdevelopment.

The alternative vision that I propose in this paper offers for each of the issues presented by the cultural determinists a version from which power, class, domination and the international division of labour have not been excised. Plus, I will try to show how the remarkable resilience of some of third world's cultural features, that is sometimes mistaken with a resistance to progress, an inability to evolve, might, on the contrary, be considered, partly, as a response to an unfavourable political and

economical environment, sometimes even as the result of a manipulation of traditional institutions in order to achieve domination by external forces.

In order to simplify this study I will focus on some of the most referred to cultural features that matter in development process. These are: religion, family and patterns of kinship, and, finally, attitudes towards material advancement and entrepreneurship.

Why does this concern pluralism? The alternative view shows that the roots of underdevelopment are not to be found within the societies themselves and their inability to adopt progressive forms of culture. Cultural diversity, therefore, is not an obstacle to global development but on the contrary it becomes an instrument to internalize and diffuse progress.

Selected Theories of the Business Cycle in terms of 'Econsochology'

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'Econsochology': this term is made up to indicate the interdisciplinary approach of Economics, sociology and psychology that I will take in attacking the neo-classicalists and pointing out some problems of the upper turning point that are more than merely economic phenomena. The paper will deal with (1) the major, selected differences between the neo-classicalists and the Institutionalists and Post-Keynesian with an emphasis upon the "interdisciplinary" approach of the latter two, especially as compared to the former. The paper will then deal (2) with an example of the relevance of the above in regards to the upper turning point of the cycle (based largely upon the works of Minsky and Wray) and the influence of historic, sociological, psychological contagions that influence the financial markets, et alius, after the financial crisis of the upper turning point and their influences upon the economy at that time and thereafter. A general (3) conclusion will follow to bring together the major strings of the above analysis.

Andrew Brown

**Philosophy, economics and the labour theory of value: a materialist development of
some recent philosophical contributions to economics**

Abstract

Recent developments within the areas of philosophy and methodology claim to have advanced the understanding of Marx's labour theory of value and hence of capitalism very significantly. Critical realism has, according to some proponents, uncovered 'the lost Marx' (Marsden, 1998), clearing away decades of misunderstanding of the labour theory of value (Engelskirchen, 2003; Fleetwood, 2001; Ehbar, 2001). 'Systematic dialectics' has interpreted Hegel anew, and reconstructed Marx's theory of value accordingly (Arthur, 2002b; Reuten, 2004; Smith 1990; Williams, 2001). However, recent philosophical contributions to Marx's labour theory of value have not met with uniform approval by economists and social theorists. A common complaint made against non-economists by those economists who employ the labour theory of value, is the neglect or misunderstanding of the quantitative side of value theory, in favour of the qualitative side (Laibman, 2000; Moseley, 1993). Amongst the majority of economists and social theorists there remains widespread scepticism about the labour theory of value, untouched by recent philosophical developments (Laibman, 2004; Brenner, 1998; Steedman, 2002).

This paper aims to demonstrate and develop the helpfulness of critical realism, systematic dialectics and a third approach to be introduced as 'materialist dialectics', for the study of capitalism. The paper will provide an abstract interpretation of Marx's labour theory of value, unique in being systematically related to all three aforementioned contemporary philosophies. On this account, critical realism is helpful in stressing structural causation, 'emergence' and social structure. Systematic dialectics is helpful in its provision of a method to grasp an internally related totality. However, neither articulates the principles of materialist dialectics, that things are solely material, and that the form of labour is necessarily related to the form of thought. These principles must be developed to grasp the labour theory of value, and hence capitalism. The interpretation is argued to provide a basis for transcending the unhelpful splits between academic disciplinary boundaries, in particular the split between a 'quantitative' economics and the 'qualitative' remainder of social science. This interpretation is argued to be a philosophical and abstract theoretical 'deepening' of an extant body of work within Marxian political economy based on an approach to Marx's value theory initiated by Ben Fine (e.g. Fine and Saad-Filho, 2004; Fine, Lapavistas and Saad-Filho, 2004; Saad-Filho, 2002). As such it clarifies and can potentially refine significantly the many concrete contributions made within this body of work, advertising the contemporary vitality of Marx's labour theory of value.

Monoculture versus Diversity in Competition Economics

*Oliver Budzinski**

Abstract:

The ambiguities of real-world competition policy are often believed to be reduced if competition policy is more rigorously based on economic theory. However, contrary to some contemporary lines of thought, competition economics is characterized by a considerable pluralism of theories and policy paradigms. This includes deviating views on core concepts like the nature of competition, the meaning of efficiency, or the goals of antitrust. The paper demonstrates the incompatibilities of different economic competition theories and policy programs. It further argues that diversity of theories represents no imperfection. Instead, it is theoretically beneficial for future scientific progress. Therefore, no ultimate competition theory can ever be expected. As a consequence, the high hopes in regard to economics-based competition policy can only be fulfilled to a certain extent.

JEL Classification:

L40, H77, B52, L10

Keywords:

theory pluralism, competition policy paradigms, industrial economics, centralism and decentralism, law and economics, methodology of science

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Title of paper: Saving and investment, money and the interest rate

Abstract:

In rejecting the rather automatic and smooth translation of saving into investment in the classical loanable funds framework, Keynes argued in the General Theory that "...an individual decision to save does not, in actual fact, involve the placing of any specific forward order for consumption, but merely the cancellation of a present order." The absence of forward markets for consumption goods undermines the loanable funds theory by introducing a role for uncertainty among investors as to what individuals will consume in the future. Such uncertainty about future relative demand means uncertainty about the potential future profit that investors can expect to extract from alternative investment options and may cause both financial and real investors to refrain from investment altogether, rather staying liquid. Thus, acknowledging the existence of uncertainty is a fundamental reason for the rejection of the loanable funds framework. Keynes substituted his liquidity preference theory for the loanable funds theory. In the liquidity preference theory the bearish sentiment among financial market participants, caused by uncertainty, together with a 'given' money supply, set the interest rate and then, via its effect on investment, establishes the level of effective demand. However, several post-Keynesian economists dismiss the liquidity preference theory of interest rate determination in favour of an endogenous money theory where the interest rate is set by the central bank. This eliminates the fundamental role of uncertainty postulated by the General Theory, for while uncertainty still may cause a preference for liquidity, the latter, due to the endogenous money mechanism, has no impact on the interest rate and hence, no impact on the level of aggregate demand. It also has the ironic result that money again, loses its non-neutral impact on the economy given that it displays passive behaviour, merely adjusting to the demand for liquidity at the prevailing interest rate. As a result, it is not bearishness and uncertainty (i.e. something on the side of market participants) that underlies a shortage of effective demand, but rather a misguided central bank policy (i.e. something on the side of the authorities). This paper considers the ongoing debate between the adherents to the liquidity preference theory and the endogenous money/exogenous interest rate theory. The paper argues in favour of an endogenous money/endogenous interest rate theory where bearishness, uncertainty and the associated liquidity preference and non-neutrality of money still retain their potency, while fully accommodating the finance motive, postulated by Keynes after he wrote the General Theory, and the associated endogenous nature of money.

The Role of Culture in Neoclassical and in the New Paradigm of Development Economics

Dr. Hatice Karacay Cakmak and Itir Özer*

Neoclassical paradigm of development economics, which essentially was based on the ideas of modernism and classical liberalism fail to take social, psychological, historical, institutional and cultural factors into account to explain development process. In the neoclassical paradigm of development of the 1950's and 1970's, it has been asserted that economic development is an autonomous process of economic growth. According to this paradigm, the notion of economic development has the same meaning as the notions of westernisation and modernisation. And parallel with this idea, the neoclassical development paradigm has offered ethno-centric, linear and universal development patterns to all of the world communities.

In this development paradigm, culture has largely been regarded as an epiphenomenal and subsidiary factor in explaining changes of social movements and development process. Such a view even goes back to the 19. century economic determinism of Marxist provenance according to which culture as an ideology was really a reflection of the substructure.

But during the last two or three decades there has been a substantial change in favour of the recognition of culture in explaining socio-economic movements both in the western world and in the developing countries. There has also been a growing concern about the aspects of culture in economic development among social scientists. The notion of development is no longer seen as an automatic result of economic growth. So, parallel with this change, there has been a new paradigmatic shift, which takes culture into account in all development efforts.

In this paper, we aim to examine the role of culture in the neoclassical and in the new paradigm of development within a historical perspective. For this aim, we shall analyse these paradigms of development comparatively in terms of their basic assumptions and their theoretical background. Then we shall put forward and discuss the place of culture in these paradigms of development. The outline of the paper is approximately as follows:

1.introduction

2.neoclassical paradigm of development

2.1. the basic characteristics of the neoclassical paradigm of development

- 2.1.1. homoeconomicus man (rational, materialistic, autonomous being)*
- 2.1.2. deterministic view of the development process*
- 2.1.3. commodity-centric view of the development process*
- 2.1.4. Euro-centric view of the development process*
- 2.1.5. purely economical exchange, hence based on regulation by the market mechanism*

2.2. the theoretical background of the neoclassical paradigm of development

- 2.2.2. the idea of progress*
- 2.2.3. classical liberalist philosophy*
- 2.2.4. utilitarianism*

2.3. the view of the neoclassical paradigm with regard to culture (ethno-centric and epiphenomenal view)

3. new paradigm of development

3.1. the basic characteristics of the new paradigm of development

- 3.1.2. non-homoeconomic man
- 3.1.3. non-deterministic view of the development process
- 3.1.4. human-centred view of the development process
- 3.1.5. multi-patterned view of the development process
- 3.1.6. economical, cultural, moral value and exchange and hence not based on the regulation by the market mechanism
- 3.2. the theoretical background of the new paradigm of development (including a comparison of post-modern and Kantian theory)
Neo-Aristotelian theory
- 3.3. the view of the new paradigm with regard culture (multiculturalistic view to development process; interacts in complex ways with techno-economic structure)
- 4. *conclusion* (including the discussion of the role of the culture in these paradigms)

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Cognitive and Behavioral Economics: a methodological discussion at the light of the development of NeuroEconomics

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Concerning economics and its methodology, many issues are still unsolved.

Far from being a solution, Neuroeconomics, a new methodological tool born in the last years, shows us these old problems again and make us thinking about new ones.

In fact, starting from Neuroeconomics approach, it is possible to question about different and primary topics: for instance, about the relations between behavioural economics, cognitive economics and the mainstream of economics; about conceptual and methodological problems related to neurosciences; about the foundation of an interdisciplinary field of research, as well.

According to some extreme views, Neuroeconomics could even, finally, make it possible to measure the neoclassical utility function. From the other side, yet, Neuroeconomics represents the latest critic to the neoclassical mainstream, as it should allow to look for the real decision-making processes of human agents. In this view, it can be, therefore, a new tool for the behavioural approach, able to widen the significance and usefulness of Experimental Economics.

As to the relation between Neuro and Behavioral Economics there are, yet, some aspects to be considered.

First of all, it's not completely clear the position of the behavioural stream of research toward the mainstream. In fact, often the label "behavioural" is used to indicate studies with different approaches, more or less heterodox. This expression, sometimes, includes even the supporters of the so called Cognitive Economics, a new born stream of research that is much more radical in its critics.

Cognitive economics, in fact, can, in short, be differentiated for the strong attention that it poses to the study of the situation of uncertainty, contrapposed to the risky one (where the possible outcome of a choice are known, as their probabilities; and therefore it's possible to take rational decision).

Cognitive Economists, on the contrary, aims to study the development of individual and social knowledge and their evolution. This difference become strongly evident in the available mathematical tool (risky situations can be analysed with Mathematics.; cognitive economists make a large use of agent-based simulations) and in the definition and aims of experiments with human agents.

Joining our different abilities –in Economics and in Cognitive Sciences- we are going to face the following issues:

- 1) The significance and the usefulness of experiments in Neuroeconomics, in relation to Economics and its methodology -which kind of models have been taken into account in the preliminary studies of this new discipline? which kind of analysis has been undertaken?
- 2) Searching for elements to start an epistemological view on Neuroeconomics practice, as developed until now, as we think that it should not mean to import, uncritically, results and ideas from Neuro-sciences research, especially when these results are not universally accepted or still not consolidated;
- 3) Emphasizing a more general and essential problem: at which degree is it possible to develop a really interdisciplinary approach? Does the contemporary division of the intellectual world allow it?

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SUBMISSION OF PAPER PROPOSAL TO:

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PAPER TITLE:

*Social Capital: A Path to a More Pluralistic Economics or
Another Manifestation of Neoclassical Prominence*

by
Asimina Christoforou¹

ABSTRACT:

Social capital refers to features of social organization such as trust, social norms and networks that facilitate collective action for mutual benefit. It provides an internal commitment mechanism to resolve social dilemmas and free-riding problems, and thus promote coordination of individual action and objectives within the economy. The aim of the present paper is to juxtapose neoclassical interpretations of social capital in economics, to alternative approaches adopted by researchers in a wider spectrum of social science disciplines. We argue that social capital research in economics has much to benefit from alternative, non-neoclassical approaches, which emphasize a more pluralistic view of economic behavior.

Social capital as a term was initially introduced in social science fields outside economics, such as urban planning (Jacobs, 1961), sociology (Bourdieu, 1984; Coleman, 1988), and political science (Putnam, 1993). The appeal of social capital in overcoming collective dilemmas and enhancing cooperation in the production of public goods was soon to be recognized by contemporary economists. Researchers began to promote a type of agent who makes decisions, not according to a narrow concept of the self and utility, but with regards to norms and networks of cooperation and trust. References were often made to classical authors, such as A. Smith and J. S. Mill, who discuss the role of institutions and values in economic performance and social welfare. In this manner, contemporary economic theory and practice appeared to depart from its reductionist view of the economic man as a self-interested individual, who makes decisions based on strategic calculations of personal welfare.

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Despite steps towards this direction, we argue that the dominant framework adopted amongst economists dealing with social capital is the standard neoclassical model of rational choice. In this case, trust, norms and networks are regarded as another exogenously determined factor to maximizing individual behavior. That is, social capital is interpreted as merely another *means* by which individuals ultimately serve their own personal benefit, ignoring the social and moral content of aims and means. But we also argue that individuals *can* pursue relationships with other agents for reasons and motives beyond their self-interest. As members of the wider social and political sphere, they engage in interaction according to values of social justice and equality, and thus build incentives and objectives to serve these values, individually and collectively. Moreover, social relationships and cooperation may be seen as ends in themselves, since they provide a sense of solidarity and collective identity, which further support coordination amongst individual interests in favor of social welfare. This is a reality that *can* be included in economic analysis by moving beyond the rational principal adopted by mainstream economic theory and adopting a more pluralistic view of the concept, capabilities and priorities of human behavior to include its social and moral aspect. For this purpose, we explore the work of researchers in the economics field (for instance, Sen, 1999; Staveren, 2001), as well as in other social science disciplines (for instance, Woolcock, 1998; Ostrom, 2000; Anderson, 2001; Paterson, 2001; Rothstein and Stolle, 2001).

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Stock Prices and Economic Growth in the UK, 1949-99

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There are widely varying perspectives on the relationship between stock market fluctuations and economic growth. Clearly shares are an important component of capital markets and capital markets are important to investment and economic growth. But the large secondary market in shares clouds the relationship. To theorists attracted by the notion of information efficiency in financial markets the stock market acts as something of a barometer, centralising information from multifarious sources on the state of the economy; share prices tend to anticipate changes in economic growth. Others, less enamoured by the efficiency of financial markets, see share prices as more reactive to past events in the real sector.

This study examines both perspectives in the context of the UK economy, testing a mediating mechanism between the share market and the real sector proposed by Shaikh (1995). This focuses on changes to the discount rate associated with short-term profitability rather than the lifetime perspective favoured by most fundamentalist approaches.

Regression analysis of UK national accounts and FTSE annual data for the 1949-99 period provides support for this proposition, with the relationship between share price movements and economic growth strongly mediated by the incremental profit rate in the real sector.

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Rethinking and Reclaiming Public Ownership

Andy Cumbers¹ and Robert McMaster²

51

Abstract

Against a background of global privatisation and deregulation, associated with the dominance of neo-liberal economic policy and an obsession with 'free markets', we argue that resurrecting public ownership is essential for promoting social justice, economic democracy and environmental sustainability. However, we caution against repeating the mistakes associated with the Keynesian Welfare State model of state-led, bureaucratised nationalisation. Instead, in developing an alternative perspective, we draw upon the work of the pragmatist John Dewey and his insights into participatory democracy and notions of 'instrumental valuation'. This leads us to reject the foundations of the current dominant economic doctrine that informs policy-making at all scales from the World Bank to the New Deal policies of the current UK Government. Underpinning the application of this doctrine is a highly reductionist model of economic organisation, grounded in a principal agent approach. Critically, as the flaws in neo-liberal economic regulation emerge, and new forms of state involvement are introduced (including some limited forms of public ownership), it is important to expose the flaws in the underlying economic philosophy that continues to drive policy. We illustrate our arguments through examples from current UK policy reform.

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Critical realism in economics – a different view

Abstract

The title of Tony Lawson's most recent book is *Reorienting Economics*. And it seems to be meant literally. Lawson obviously aims at reorienting the discipline of economics. He more or less discards all of mainstream economics due to its allegedly untenable 'deductivist' mode of reasoning. On the constructive side he argues the case for critical realist ontological theories as a common base for various heterodox schools of thought. Regarding the possibility for developing a critical realist approach to substantive economic analyses, however, Lawson states that in his view "there can be no such thing." (Lawson 1999: 14)

In the paper these priorities of the noted aspects of the critical realist project within economics are turned upside down. In my assessment the critical realist critique of mainstream economics has been less than successful, and if continued in its present form it will be a waste of intellectual resources. Moreover, arguments to the effect of establishing critical realist ontological theories as a common base for various heterodox schools of thought, rendering them distinct only according to what aspects of this ontology they focus upon, are questioned. The suggested strategy seems to argue the case for pluralism at the theoretical level while maintaining (a critical realist) monism at the ontological level. This is against the nature of true pluralism. And what is more, the properties of critical realist ontological theories, being admittedly fallible and contingent, does not make them suitable as a common basis for a whole range of different schools of thought within economics.

Consequently, if critical realism is to stand any chance of establishing itself as an enduring and influential force within the field of economics, it has to be in the form of critical realist analyses of substantial economic questions and issues. In the paper this line of reasoning is developed by way of arguing how a tenable critical realist-informed economic methodology might be developed from the philosophical stances and the general ontological theories of critical realism. This critical realist methodology of economics may then serve, it is argued, as an underlabourer for critical realist informed analyses of relevant economic issues. Developing the critical realist project within economics along these lines will pay due attention to the fact that critical realist ontological theories are fallible and contingent theories. Critical realism, then, will situate itself as one among a range of other approaches to economic enquiries in a true pluralist fashion rather than as some common philosophical underpinning of already existing schools of thought within the heterodoxy. And the assessment of the critical realist approach to economics will, at the end of the day, be due to its adherents' ability to shed light on old as well as new problems and issues pertaining to the realm of economics.

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The Individual in Mainstream Health Economics: A Case of *Persona Non-grata*?

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Abstract submitted for consideration of inclusion at the 2005 AHE Conference, July.

This paper is partly motivated by Victoria Chick's (2003) observation that the mode of thought can impact on policy through theory. We argue that this is the case in the provision of health care.

As with other applied fields of mainstream economics the health economics literature is predicated on an atomistic conception of the individual. The individual is usually conceived to be self-interested, and utility maximising subject to exogenous constraints, where actions are solely motivated by an instrumental rationality. Within the context of health care provision individuals' relationships, particularly between clinicians and patients, are usually considered to resemble the classic principal-agent scenario (Mooney and Ryan, 1993; Scott and Vick, 1999). While the agency relationship conventionally assumes self-interested behaviour, it does usefully demonstrate how mutual advantage can be gained through the pursuit of common interests. Moreover, it is claimed that the advantages of agency specialisation have been recognised since Adam Smith, and that it conceptualises the profusion of comparative advantages, and hence efficient economic organisation, in many socio-economic relationships. Thus, agency type relationships may be viewed as an inevitable consequence of specialisation and economic development.

The health economics literature follows the information-theoretic (see Fine, 2001) approach of agency theories, such as new institutional economics and public choice economics. In the case of health care the clinician-agent is imbued with informational advantages over the patient-principal: the clinician-agent usually articulates demand on behalf of the patient-principal. The vulnerability of the patient is highlighted in this literature, and an important issue is protecting the patient from potentially dysfunctional behaviour by the agent. Given the irreversible nature of many medical processes and procedures the costs borne by the principal are potentially considerable and sunk. For mainstream health economists the principle policy implications revolve around the appropriate alignment of incentives, including attenuating the possibilities for opportunistic behavioural traits arising from information asymmetries. In this respect Mooney and Ryan (1993) have argued that more research is required into the nature of actors' utility functions in order to design the optimal incentive structures to encourage clinicians to appropriately account for patients' preferences. Scott and Vick (1999) further advocate that clinicians should be taught better communication skills in order to furnish quality information that patients can understand. The US literature has attempted to address issues of supplier (or physician) induced demand (McGuire, 2000). More radically, the agency relationship has been used as a justification for the imposition of market-oriented reforms, where health care provision is increasingly contractualised (Rice, 1998), as a vehicle to generate more, and better, quality information and adjust agents' incentives in an efficiency-enhancing fashion.

Market-oriented reforms, and the notion of agency, in health care provision have been subject to some critical analysis (see the collection edited by Davis, 2001). This paper attempts to contribute to this critical discourse by drawing on Davis' (2003) recent analysis of the

individual in economics. The paper contests that the mode of thought underpinning the mainstream health economics application of the agency relationship and, crucially, its conceptualisation of the individual are very limited. The agency analogy provides a reductionist and restricted account of complex interactions and human psychology. Moreover, the instrumental rationality of actors also presents a flawed and restrictive explanation.

Instead, the paper advocates a reconceptualisation of the individual to recognise the social embeddedness of individuals and their potential for collective intentionality. Following Davis (2003), individuals socially embedded in groups cannot be explained solely in instrumentally rational terms. Expressing a shared intention commits an individual to an intention held by others, and introduces an obligation on the individual. This is not of the form of a constraint, as McGuire (2000) argues medical ethics have on clinician behaviour, but is of a form of deontological rationality. In effect, the individual voluntarily shares the motivation of the collective entity, and her/his actions are not solely guided instrumentally; actions in themselves possess value.

Employing this mode of thought, the paper argues that market-oriented reform has the capacity to reconfigure collective intentionality in the form of value systems. Viewing patients as principals can inculcate the patient as consumer and commodify health care. In such circumstances care may be reduced to some homogenised blend of medical procedures and good customer service. Instrumental rationality drives out deontological considerations.

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Andy Denis

Dialectics and the Austrian school? The search for common ground in the methodology of heterodox economics

In a recent paper (Denis, 2004) I argued that the neoclassical use of the concept of equilibrium was guilty of a hypostatisation: an equilibrium which is only an abstraction and extrapolation, the logical terminus of a component process taken in isolation, is extracted and one-sidedly substituted for the whole. The temporary is made permanent, and process subordinated to stasis, with clearly apologetic results. I concluded by suggesting that this hypostatisation exemplified the contrast between formal and dialectical modes of thought, and that it may be in the application of a dialectical notion of equilibrium that the heterodoxy can make its most telling contribution. This paper develops the line of thought that, while heterodox currents may superficially appear as divided amongst themselves as they are from the orthodoxy, there is truly something profound uniting the apparently disparate heterodox trends: the adoption of a dialectical method. I draw on Sciabarra (2000), who argues that making process primary, which we might expect of Austrian economists, is the essence of dialectics, which we might (wrongly, in his view) identify with Marxism:

One of the principles of dialectics is that in any analysis of any object of inquiry ... our understanding of the object must include a focus on dynamics. How an object comes to be what it is, which forms it currently takes, and where it might be tending are all a part of its identity (Sciabarra, 2000: 141).

This view has ramifications for relations ... conceived dynamically ... Norman ... argues correctly that 'we cannot construct change and motion out of static elements'. Our analysis must begin with the fact of change ... some economists in the Austrian tradition hold that process is one of the most important aspects of any analysis. Rizzo ... argues, for example, that in the neoclassical 'static conception of time, the present is a virtual stop – the very negation of passage or flow'. (Sciabarra, 2000: 183-184)

If this view is, as I believe, fundamentally correct, perhaps (a) we can only understand the method of neoclassical economics by contrasting it with a dialectical approach, and (b) we can explore the differences between the various heterodox currents by examining their attitude, both implicit and explicit, to dialectics.

Hegel, at the beginning of the *Science of Logic* (Hegel, 1929: Ch 1), shows the inadequacy of a static concept of *being*: *being* consists of the two dynamic categories of coming-to-be and ceasing-to-be, of origin and decease. Hence in reality, anything which *is*, can only be understood as in *transition*, and, as Keynes says, 'it is in the transition that we actually have our being' (Keynes, 1973: 343 footnote 3). It may be here that the heterodoxy can make its most telling contribution, but surely this will depend on a far more profound, explicit and conscious grasp of dialectics than exists at present.

Ben Dew (Queen Mary, University of London)

Economic Fictions and Fictional Economics in the Writings of Daniel Defoe.

Daniel Defoe, like his most famous creation *Robinson Crusoe*, is a highly controversial figure within the history of political and economic analysis. On the one hand, a broad group of writers, among them Marx, Weber, and Watt, have sought to connect Defoe's work to emergent capitalist and bourgeois values. On the other, many modern critics, most notably Earle and Novak, have argued that Defoe was an essentially nostalgic writer who longed for a return to the mercantile values of the past.

My contention in this paper is that within his economic writing Defoe constructed two separate 'identities' in order to meet contradictory demands which lay at the heart of eighteenth-century views of labour and status. In pamphlets such as *Everybody's Business is Nobody's Business* and more extended works such as *The Great Law of Subordination* Defoe declaims against the modern age and the impertinence and indulgence of overpaid servants and argues the need for the upper orders to enforce order and discipline so as to return Britain to the glorious position it had held in the past. Within this analysis he offers an essentialist account of rank and asserts the need for individuals to stick to their position in the social hierarchy. In *A Plan of the English Commerce* Defoe inverts this narrative and describes the rise of commerce through the seventeenth century, which, he maintains, is rooted in the individual's desire to move beyond their 'natural' rank and the superior wages of British workers in relation to their foreign competitors. Both of these arguments served important ideological roles. Defoe believed (as did most of his contemporaries) that the wealth of the nation was dependent on the good management and low wages of the labouring sort, but at the same time realised the psychological importance of personal gain and ambition in motivating the individual to exert himself, and the role that high wages played in producing a healthy and strong worker. Within his economic work Defoe was unable to reconcile his demands for high and low wages and his accounts of the rise and decline of the British nation. However, in *Robinson Crusoe*, Defoe attempted a fictional rapprochement of these two analyses. Accounts of this novel have looked to the protagonist's rejection of his father's advice to stick to the middle station in life as evidence either of Defoe's support for the traditional values of Crusoe senior, or a vindication of his son's itinerant nature. My aim is to show how the text consistently refuses to choose between these two models. Rather it attempts to show that any 'moderate' action is permissible and will ultimately lead to a positive economic result. By removing the action of the text to a remote island free from troubling issues of status inherent in discussions of England, Defoe is able to provide a vindication of both the attitudes to status that he had explored in his conventional economic writing.

Ben Dew (Queen Mary, University of London)

Robinson Crusoes: Fiction and Political Economy

The aim of this panel is to examine the relationship between literary and economic history. Until recently, many critical accounts have sought to trace the increasing distance and hostility between the two disciplines. While an eighteenth-century man of letters like Adam Smith was equally comfortable discussing political economy or the *Belles Lettres*, there has been a tendency, particularly from the Romantic period onwards, to view creative writing as functioning in opposition to the tawdry and philistine world of money-making and its theoretical counterpart the 'dismal' science of economics. This process appears to have been exacerbated by the increasingly rigid boundaries between academic disciplines and the subsequent development of a highly specialised (and in the case of economics, mathematical) discourse. However recent work such as Sandra Sherman's account of 'finance and fictionality' in the early eighteenth-century, Philip Connell's analysis of the interaction of Romantic literature and economics and, more generally, the pioneering collection of essays *The New Economic Criticism* have sought to re-evaluate this viewpoint. Consequently, a more complex and dialogic interaction has been revealed in which economics played a significant role in cultural history, and literary work and techniques helped to mould economic discourse.

This panel will focus on the figure of Robinson Crusoe both in Defoe's original fiction and in later reinterpretations by Victorian writers (most notably Harriet Martineau). The papers will look both at the strategies which writers utilised in order to fictionalise economic ideas, and the ways in which economic ideology is supported, questioned, and altered in these texts.

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Political economy and the historians *

William Dixon (London Metropolitan University) and Dave Wilson (London Metropolitan University)

We examine how political economy has been taken up by in history by examining in particular the work of E.P Thompson. We establish the importance of political economy for history by locating it in the move, identified by Thompson, from moral economy to political economy. We establish what the understanding of political economy is in the work of EP Thompson. We identify the consequences of this understanding for the understanding of radicalism and the social role of political economy. We suggest an alternative view of political economy by examining the works of Richard Price, Thomas Paine, Malthus, Ricardo, and Chalmers. In the course of this we question the understanding of both radicalism and political economy and question the supposed division between radicalism and political economy on the question of the activity and progress of the working class

**Abstract for AHE conference "Pluralism in Economics",
15th – 17th July, 2005, London/UK.**

The Struggle for Power in Economics

The history and transdisciplinary translation of
entrepreneurial political power in global political economy

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„When corporations rule the world.“ (Korten 2001) This is the title on one of the major books of the anti- or critical globalization movement, but what do economists know about power? "Mainstream economists have not only found concepts like [...] power to be useless in explaining economic phenomena, but they worry about introducing such emotionally charged words into the analysis." (Stiglitz 1993:112) Stiglitz's assessment is a good example of the autistic characteristics of orthodox economics. My contribution investigates the role of power in economics and searches for a new model. The argumentation starts with the historical development of economic ideas and searches the reasons of losing the concept and term of power and ends with an outline for a new model and its implication for transdisciplinarity and society.

From different points of view, Adam Smith and Karl Marx wrote about power in economics. With ascendance of neoclassical economics, research was focused on the price mechanism and has slowly forgotten social and power relations. For example, Böhm-Bawerk (1914) started to support market forces in "Macht oder ökonomisches Gesetz?" (power or economic law?). The annual meeting of German Verein für Socialpolitik in the year 1972 occupied itself with the same question, but marked only an exception in the general development of economic ideas. Today, power is a marginalized term and is connected to a small number of cases like market power, power voting indices, bargaining power and the influence functions of special interest groups. The nearly missing concept of power is "the great black hole of economics." (Galbraith 1967: xix)

The historical retrospect gives good reasons for power in economics. The struggle for a new translation of power in economics is an important step to transdisciplinary pluralism. The

central concept of power opens a communication channel to other social sciences. Other disciplines like business management, political science, geography, psychology, sociology or political science utilize power as one of the major concepts. If we start with the problem of the bilateral monopoly or the capability approach of Amartya Sen, we would be able to talk about power. In a fully developed economic theory of power, we could connect complexity with institutional economics to fulfil the requirements of a critical realistic concept of power (Isaac 1992).

Finally, the theoretical struggle enables transdisciplinary economics to clarify substantial questions of society. Power relations are one major cornerstone for the analysis of global political economy. Rational arguments are necessary for a reasonable policy, which is able to manage transnational corporations as powerful shapers of the global economy. Business ethics should include the power of corporations, because these powerful actors violate the freedoms of consumers, workers, markets and societies. Corporations are included in the process of global governance, but their powerful weight distorts the pluralistic concept of civil society in global politics. Corporate hegemony (Dugger 1989) is not an efficient or justifiable global system.

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Abstract

Methodological monism and methodological pluralism in economics

The aim of the paper is to give an outline of the relation between general epistemology and the epistemology of economics. The epistemology of economics can be treated starting from the "general epistemology of science" and from the subject of the investigation, namely the problems of economics itself. Starting from the general or subject-independent epistemology one can make an attempt to adapt to economics various methodological approaches which were practically created to take only the subject of physics or mathematics into consideration. By way of illustration the Popperian falsificationism, research programmes by Lakatos, Kuhnian normal science or Hilbertian axiomatism can be mentioned. The characteristic feature of this mentality is often the methodological monism, a doctrine which implicitly or explicitly states the unity of epistemology in all disciplines. In methodological writings of economics, beside the supporters of some general epistemological viewpoints, there are serious critics of them on behalf of methodologists who start their researches based on economics.

The methodological pluralism does not reject the importation of methodological ideas from other branches of knowledge in an aprioristic way. However, the uncritical adoption of the methodology of physical sciences or the „general” methodology leads to the realm of inadequacy and dogmatism. According to methodological pluralism, every research has to choose its methods and methodology conforming to the nature of its own problems.

The theoretical consequences of methodological monism are not always obvious. The questions concerning methodology are notwithstanding essential because these are the basis on which the theories are founded. Inappropriate methodology can lead to inappropriate theories and inappropriate practical decisions. The negative consequences of formalism will be illustrated by some spatial economic issues in the field of money and price theory, such as the empirical empty doctrine of purchasing power parity and the theory of optimal currency areas.

Keywords: methodology of economics, methodological monism, methodological pluralism

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Entrepreneurship: the natural point of departure for a course in pluralist economic principles?

Peter E. Earl & Tim Wakeley*

Abstract

We begin with some broad observations: (1) It is widely accepted that entrepreneurship (in its broadest sense) is a fundamental driving force of economic progress in the real world; (2) experience suggests that entrepreneurship is a topic which attracts great interest from economics and business students alike; (3) many commentators have pointed towards a downturn in the enrolment of students on economics degrees (probably because business degrees meet students' requirements for practical understanding more closely); (4) the Post-Autistic Economics Network has arisen because of mass dissatisfaction with 'unrealistic' single-paradigm economics; (5) the economics profession has turned inwards to impress peers and it ignores 'troublesome' aspects of the real world

If observations (3) and (5) are correct we should be worried and we should be looking for ways to repopulate the profession with young blood. Observation (4) suggests that the young blood is waiting in the wings, so the solution to the problem would seem to be to broaden the scope of economics which is, of course, what the movement towards pluralist economics advocates. Observations (1) and (2) suggest that one way to open the door on a new pluralist economics is to capture and nurture the inherent latent interest in entrepreneurship at the earliest opportunity.

One of the problems with neoclassical economics is that it assumes all of the really interesting questions that would face people running a business have already been answered (e.g. 'how does a buyer actually make her/his decision in the face of uncertainty and imperfect knowledge?'; 'how can the buyer obtain custody of the firm's good?' etc...) By grounding economic understanding on the foundation stone of entrepreneurship these practical problems have to be dealt with explicitly. In this paper we explore how an introductory course in economics could be structured so that entrepreneurship lies at its core while broader aspects of economic theory (including both heterodox and neoclassical concepts) naturally follow. In short, entrepreneurship opens up questions that lie at the heart of real world economics including the fundamental question; 'how do markets work/fail?'

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The role of introspection, text and anecdotes in pluralistic approaches to economics

A paper offered for the 2005 AHE Conference, London, 15-17 July

by

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Abstract

Pluralism in economics can encompass both openness both to alternative theoretical perspectives and to different perspectives on the roles of particular kinds of data in the process of constructing and testing theories. This paper is primarily concerned with the role of unorthodox kinds of data but it will at times use these kinds of data to support the case for economists habitually working with more than one theoretical framework.

The paper begins by presenting a taxonomy of different kinds of introspection that have potential for use in economics and notes how some of them have been used previously, in psychology and consumer research by marketing scholars if not in economics. Within heterodox economics, the most established methods are the use of interviews and questionnaires (as per the Oxford Economists' Research Group in the 1930s and 1940s) and the use of 'think aloud protocols' in the behavioural analysis of decision making (beginning with Newell and Simon in 1972). But the paper shows that the list of possibilities is far greater than this, including reflection by economists themselves on their own behaviour as economizing agents and various kinds of published text in which processes of decision making are recorded, such as extracts from literature or consumer magazines. There may even be a place for anecdotes that have been gathered in a non-systematic way.

None of these kinds of data sit comfortably with mainstream positivist approaches to economics and the paper compares and contrasts attitudes to introspective analysis in economics and psychology (as far back as Mill and Comte), noting how arguments employed in defenses these approaches outside economics suggest a place for them within it.

The paper then gives some examples of how such sources of data cast doubt on, or offer support to, particular economic notions or suggest fruitful lines for the development of theories. Finally, the paper considers areas in which the potential for effective use of introspective data seems particularly promising.

The Macroeconomic Determinants of Health Experience

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& David F Marks

City University, London

Health is promoted, maintained, and restored through multiple inter-relating factors ranging from innate variables such as age, sex, and genetics to socio-economic variables such as income, culture and social structures. Despite the growing evidence regarding the relevance of an ecological approach, mainstream health psychology remains detached from social and political issues (Marks, 1996). Research on the determinants of health inequalities has yet to tackle the influence of international macroeconomics. Neo-classical economic policies claim that growth can be maximized if the market is allowed to act freely. However, its implications on social inequality, ill-health and quality of life are still debatable. This study provides an evaluation of the impact of structures of trade, monetary policy, and fiscal policy on the indicators and experience of health. It follows an outcome model for health promotion (Nutbeam, 1999) to determine the influence of the above macroeconomic forces on *health and social outcomes* (e.g. functional independence, equity, disability), *intermediate health outcomes* (e.g. lifestyle, access to health services, healthy environments), *health promotion outcomes* (e.g. health literacy, community participation, legislation), and *health promotion actions* (e.g. patient education, group facilitation, advocacy). It is planned to analyze data sets on the quality of life of citizens in countries which have contrasting levels of income distribution but similar GDPs.

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AHE 7th Annual Conference 2005

Pluralism in Economics

Paper Proposal

by Andreas Exenberger

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International Economics and the Question of Power: a Manifold but Obscured Relationship

During the Peloponnesian War the powerful Athenians came to the small island of Melos telling the inhabitants either to pay tribute or to face conquest. The Melians answered that Athens might be able to do that by force, but in this case acting completely unjust. The Athenians replied that justice and the rule of law is something for equal partners, but that the stronger will always act by the rule of force. Melos rejected to surrender, warning the Athenians that the balance of power someday might shift against them. Athens nevertheless waged war, and as a result put all Melian men to death and sold all women and children into slavery.

What has this story to do with economics? It leads us to a question very much neglected and even obscured by the economic mainstream and thus in desperate need of a pluralist debate about it: the question of power. To be sure, there are several approaches in economics aware (often in a very special way) of this question: monopoly and oligopoly theory, the theory of asymmetric information, some branches of institutional and political economy, and so on. But in general the question of power is something considered as neutral or at least as a distortion correctable by the invisible hand of the market (an institution thus obviously very powerful). This is especially true for the disciplinary debate about international trade and globalization. The basics in these fields (in models as well as in thought) are completely ignorant of other "forces" than those of the market, although the processes of international exchange in general and trade in particular are very much a question of the interrelation of political, institutional, economical, cultural, and even military forces, centuries ago as well as recently. Considering insights from neighbour disciplines like sociology, history or political science would thus be particularly valuable in these areas of economics.

In my paper therefore I focus on international economics and discuss (1) in which way the question of power is considered by the mainstream; (2) what important features of power thus are neglected by it; and (3) how an holistic approach could be shaped, helping to better understand the process of globalization and especially the problems of countries of the so called "South", often even suffering from cures produced by mainstream economics. One point in the analysis consequently is to discuss the possibly most important reason for this camouflage: the non-neutrality of economics with respect to power. After all it is – like most arts and sciences – a discipline elaborated mainly by people from certain parts of the world and employed by the powerful, and thus also – possibly not exclusively, but there is a strong bias – for the benefit of the powerful.

By the way, history tells lessons. A decade after the "Melian dialogue", Athens has lost power and was terribly defeated by her mighty enemies ...

"Two invisible hands and a big TOE: systems theory and the problems of pluralism in economics."

Vincent G. Fitzsimons, University of Huddersfield

Abstract:

Open systems theory has been suggested as a possible approach to develop alternative economic analysis free from the shortcomings of the neoclassical orthodoxy. This paper examines the potential of open systems theory in encouraging pluralism in economics as well as the implications of general systems theory, and open systems theory in particular, for the construction of economic theories.

Whilst the recognition that 'closed' systems are restricted in their predictive ability has been helpful in encouraging the development of alternative perspectives in both the natural and the social sciences, the belief that the problems of orthodox economic theory stem from the 'closed' nature of its thinking is questionable. The proposition that classical economic believed in the self-organising nature of the economy and the spontaneous emergence of order suggest that it demonstrates complexity and emergence, whilst its (limited) recognition of the impact of factors outside the 'boundary' of the general theoretical system in fact indicates that it is a form of open system. Adam Smith's invisible hand, hopefully now disposed of in economic models, reflects the belief amongst open systems theorists in the physical sciences of the existence of a 'purpose' in all systems. Thus the adoption of open systems thinking does not rid economics of criticisms of teleology. Instead it simply replaces the 'invisible hand' of the market co-ordinating activity with the new 'invisible hand' of 'nature'.

In addition, the purpose of general systems theory, of which open systems theory is a sub-theory, is specifically to encourage the creation of what scientists refer to as the 'Big T.O.E.' (Theory of Everything), and whilst the explicit demand for theories to map interrelationships and interdependencies naturally improves the capacity to create generally effective systems of analysis, it may act to reduce the degree of pluralism, and in particular methodological pluralism, accepted in disciplines attempting to create theories to fit into a meta-theoretical framework with defined patterns of levels and structures. In a sense, systems theory, whether closed or open, encourages pluralism of one form at the expense of pluralism of another.

THE FUTURE OF POST KEYNESIAN ECONOMICS

by

Giuseppe Fontana and Bill Gerrard*

SUMMARY

This paper assesses the current state of Post Keynesian economics and attempt to outline a strategy for its future development. It is argued that Post Keynesian economists have concentrated in recent years on the important pre-analytical task of searching for a sound methodological foundation upon which to develop analytical contributions to the development of economic theory and practice. It is then suggested that the future of Post Keynesian economics lies in the substantive task of constructing more general, encompassing understandings of economic behaviour that extend the applicability of existing economic theory to non-allocative modes of behaviour

JEL classification: E12, B22, B40

* University of Leeds, Leeds Uni. Business School, Leeds LS2 9JT, UK, e-mails: gf@lubs.leeds.ac.uk and wjg@lubs.leeds.ac.uk, respectively. The paper has a long history. It stems from initial discussions with our colleagues Steve Dunn and John Hillard in the late 1990s. Dunn (2000) incorporates some of the common ground and the early thinking of our project. Earlier drafts of the paper were presented at the 2nd European Society of History of Economic Thought Annual Conference (University of Bologna, 1998), the one-day conference on "The Contemporary Relevance of Post-Keynesian Economics" (University of Staffordshire, 1998) and the 27th Eastern Economic Association Annual Conference (New York, 2001). We are grateful for comments from Philip Arestis, Andrew Brown, Meghnad Desai, Geoff Harcourt, John King, Marc Lavoie, Tony Lawson, David Pringle, Malcolm Sawyer, and Nina Shapiro. We own a special debt to John Hillard for relentless encouragement and support in the developments of our own views. Finally, a grant from the History of Economic Society for a research in Summer 2003 on Davidson's papers and Weintraub's papers at the Rare Books, Manuscript, and Special Collections Library of Duke University (USA) is greatly acknowledged. The usual caveat applies.

Author: Alan Freeman

Title: Confronting the evidence: Marx's historians on the falling profit rate.

Abstract

Probably no debate in economic history has occupied more minds than Marx's 'Law of the tendency for the profit rate to fall'. Howard and King cite no less than eight authors – Stiebeling, Croce, Tugan-Baraonowsky, von Bortkiewicz, Charasoff and most importantly Moszkowska, who as early as 1926 had laid the foundations of the modern dismissal of Marx's argument, most centrally associated with Okishio's theorem.

Yet it is widely recognised that the empirical evidence confirms Marx's law. This obliges us to ask a different question from the usual one, namely, 'is it possible that the economists have misunderstood what Marx was trying to say?'

The paper studies what Marx wrote on the profit rate and suggests that the conventional presentation of his thesis is very wide of the mark, failing to square with the evidence of Marx's own text. Thus, the theoretical proposition which has been 'proven inconsistent' is not that of Marx, but of his interpreters.

The paper conducts a further detailed study of the representation of Marx in the literature, beginning with Natalie Moszkowska's presentation which contains the essential argument underlying all subsequent 'disproofs' of Marx. It aims to demonstrate that the standard presentation significantly mis-formulates his actual argument, and that when this argument is rescued from the interpreters, it provides a coherent and logically consistent account of the evidence provided by the real economy in the 130 years since his death.

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Proposed stream for AHE conference 2005 on 'Whiggish History and the (re) interpretation of theory'

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Organisers: Alan Freeman (Greenwich University) and Andy Denis (City University)

Economics supposes that hermeneutics - the way that writers are interpreted - has no bearing on its conclusions. It does not concern itself whether Keynes really endorsed Hick's 'Keynesianism'; if Sraffa's 'Ricardianism' is what Ricardo actually wanted to say; whether Sweezy's 'Marxism' was the same as Marx's; or anything about Adam Smith's actual ideas except as authority for the Hidden Hand.

Economic History and scholarly hermeneutics have both been relegated to the status of eccentric hobbies, of no relevance to economic truth. In presenting itself as a positive science, economics assumes that since every new theory is an advance, there is no need to test it against the past. It sacrifices the precaution, standard in true science, of testing new ideas not just against other new ideas, but past ideas too.

In fact the way past writers are interpreted therefore has an enormous influence on what economics accepts as valid. Economics confronts its past by modernising it. 'Paradigm wars' are won, not by confronting past theories with modern ones, but by reinterpreting these past theories in the light of modern thinking. But if modern thinking is false, as a result what is 'falsified' is the modern interpretation of these thinkers, and the actual content of their theory is never considered, precisely because its originality has eluded the interpreters.

This stream will look at the thought of economic writers, will consider evidence from their own work, and enquire what economic theory has lost in the process of interpreting them.

Critical Pluralism: beyond Talking the Talk

By Alan Freeman and Andrew Kliman

This paper will present the view that pluralism in economics is best defined by formal rules of conduct providing for professional standards for research, presentation and editorial judgement very different from the informal standards currently prevailing. It will present, as an example and as a basis for discussion, the scholarship guidelines arrived at during ten successive miniconferences of the International Working Group on Value Theory, which took place at the Eastern Economic Association's annual spring conferences in the USA each year from 1994 to 2004.

We will argue that without pluralism, economics cannot be considered scientific, since science consists in testing observed reality against the full range of theoretical alternatives available to explain that observation. Because of its special status within the social sciences, economics is 'naturally antipluralistic' with informal rules of conduct in practice accepted uncritically by the generality of economists whether orthodox or heterodox. These unwritten rules, the 'accepted common sense norms' of economics, in fact provide a mechanism for ideological risk aversion - the exclusion and suppression of theories from which endogenous market failure can be deduced. To the extent that heterodox economists consent to and apply these unstated rules, they participate in perpetuating the mechanism of their own suppression.

For this reason pluralism does not reduce to tolerance and requires a conscious and thought-out alternative practice. We define *critical pluralism* as a practice of active engagement, in which each practitioner is obliged by editorial and professional constraints to consider and engage, with explanations alternative to their own, for the body of evidence they are examining, including alternative interpretations of the textual evidence they present, and paradigmatically varying ontological premises and assignments of meaning to the terms that they use.

Such procedures may seem simple but they in fact set a different and high standard from which most practicing economist instinctively shy away, but which are no more rigorous than the normal standards of the natural sciences. We will argue that heterodox economics needs to adopt standards of this nature if it is to present a coherent and superior alternative to the prevailing orthodoxy, above all an alternative which empowers the 'users' of economics to make their own judgements on the basis of the economic advice they receive, instead of the present practice in which economics functions with total freedom from any and all external standards of scrutiny, transparency or accountability.

IWGVTScholarship Guidelines

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Preamble

We are convinced that the de facto function of mainstream selection procedures is to exclude. Mainstream selection criteria are subjective and therefore discriminate against theories and arguments which the reviewers and editors hold in disfavor. Conversely, the following guidelines put forth some objective criteria to which, as we have learned and as we teach, good scholarship should conform.

It is common in academic discourse for proponents of one perspective to exclude, ignore, and deny legitimacy to opposing perspectives. Against this, the aim of the guidelines is to achieve a style of debate in which different perspectives engage with one another. We seek to foster a dialogue which is pluralist, because no interpretation of a theory, and no presentation of the facts, will be ruled out a priori, but also critical, because proponents of various perspectives will need to confront the alternatives.

Inform Readers of the Alternatives

An argument is not well-grounded unless the extant alternatives have been addressed. This means that all points of view are legitimate until proved otherwise. Engage and cite the views of others involved in debating the issues you are addressing, and treat them as equals acting in good faith. If you want other people to attend to what you are saying, then attend to what they are saying.

Don't Deny Legitimacy to Alternative Views

The aim of debate is clarity, not demolition. Avoid turns of phrase such as 'absurd', 'ridiculous', or 'impossible' to deny the legitimacy of opposing views, or phrases like 'as is widely known' or 'of course' to prove your own views are undeniable.

Identify the conceptual basis of "facts"

Economic data are not undisputed facts of nature but the result of a theoretical interpretation which should be explicit. 'The real output of the UK economy in 1994 was £570,722m' is a false claim. 'Output as measured by the UK NIPAs, deflated using the HMSO GDP deflator, was £570,722m' specifies the conceptual framework that produced the claim, and lets the reader trace the assertion back to its source.

Distinguish Original Texts from Subsequent Interpretations

You must distinguish clearly between an original text and subsequent interpretation. John Maynard Keynes did not say that equilibrium in the goods and money markets is given by the intersection of the IS and LM curves. This is Hicks' interpretation of Keynes. Karl Marx did not say that value is a vertically-integrated labour coefficient: this is the interpretation of Marx proposed by Linear Production Theory.

Argue from Evidence

Both statements about the world and interpretations of texts must be supported by empirical evidence, from the world or from the text, respectively. Appeals either to authority or to popular wisdom do not constitute evidence. Avoid Ad Hominem reasoning: don't try to substantiate or refute an argument by reference to any characteristic of the person presenting it.

Distinguish Between Internal Inconsistency, Interpretive Difficulties, and Disagreement

If you justify your approach by asserting that opposing views are inconsistent, you are declaring they cannot possibly be right and you hence exclude them from discussion. If you have only demonstrated the inconsistency of your own reading of these views, then your proof is false because you have not exhausted the alternatives; but you have closed down the dialogue. If you want to say a view is inconsistent, provide evidence that it cannot be interpreted otherwise. Unless you can do this, instead say that you have difficulty making sense of the argument, or that you disagree with it, as the case may be.

Characterize Schools of Thought in the Preferred Manner

Do not use a characterisation for the purpose of dismissal. In debate, refer to other schools of thought by the name they prefer (for example, 'surplus approach' in preference to 'neoricardian') unless you are including them in a wider grouping with no recognised name. In the latter case, try to provide an accurate, descriptive term.

Competitive and Non-Competitive Narratives

Edward Fullbrook

Einstein's revolution led philosophers and historians of science to abandon 19th-century views of scientific progress as a smooth accumulation of tested facts. Scholars came to focus instead on the processes by which one theory displaces or subsumes another. By the 1960s, obsession with competing theories became so extreme that increasingly all science was defined and interpreted relative to its infrequent revolutions. [Kuhn 1962] This narrative Gestalt has spread through contemporary culture, dominating its perceptions of the advancement of knowledge.

Generally the natural sciences ignore outsider analysis, but the narrative fixation on the dialectical side of scientific development has had and continues to have a deleterious effect on the human sciences. Of course, theory displacement offers a true characterisation of important chapters in science history. But there are many major advances in science for which the narrative of scientific revolutions, including its intervals of "normal science", has no explanatory power. More to the point, in the human sciences those "extraordinary episodes" which have "necessitated the community's rejection of one time-honoured scientific theory in favour of another incompatible with it," are virtually unknown. [Kuhn 1962, p. 6] In economics, for example, the absence of such episodes weighs so heavily on its pursuit of understanding that no sensible overview of its fundamental ideas is possible without abandoning the traditional narrative structure.

The notion of *narrative* provides this paper with its central organizing concept. The term is deployed inclusively, so as to encompass everything from the theories of micro physics to the myths of traditional societies. Narratives commonly taught in universities, "knowledge narratives", will receive primary attention. It frequently happens that in a field of empirical enquiry there emerge several narratives which rather than being contradictory or incompatible are complementary in the sense of offering different windows for observation of the same or overlapping domains of phenomena. Every narrative--and, therefore, every theory, paradigm and research program--launches itself from a conceptual framework, including a set of presuppositions about the nature of reality. Inevitably, different conceptual frameworks offer different points of view on the object of inquiry. What one sees when one looks at Michelangelo's statue of David depends on the standpoint from which it is observed; similarly, what any empirical inquiry makes of its object depends on the conceptual framework through which it is viewed. Just as full appreciation of David requires viewing it from more than one perspective, so knowledge accumulation often depends upon investigating empirical domains through more than one narrative. I call this the doctrine of **narrative pluralism**. It is the same view of empirical understanding that the physicist David Bohm describes as follows.

What is called for is not an *integration* of thought, or a kind of imposed unity, for any such imposed point of view would itself be merely another fragment. Rather, all our different ways of thinking are to be considered as different ways of looking at the one reality, each with some domain in which it is clear and adequate. One may indeed compare a theory to a particular view of some object. Each view gives an appearance of the object in some aspect. The whole object is not perceived in any one view but, rather, it is grasped only *implicitly* as that single reality which is shown in all these views. When we deeply understand that our theories also work in this way, then we will not fall into the habit of seeing reality and acting toward it as if it were constituted of separately existent fragments corresponding to how it appears in our thought and in our imagination when we take our theories to be 'direct descriptions of reality as it is'. [Bohm 1983, pp. 7-8]

The details of these and related arguments will be set out in three sections. First, the narrative function of conceptual frameworks will be explained by examining their various standard elements. Second, 20th-century physics will be surveyed as an exemplary case of narrative pluralism and its benefits. Third, narrative pathologies common to the human sciences and a consequence of anti-pluralism will be identified.

The Time of Labour, the Time of Capital : On the Question of Time in Ricardo's Value Theory.

This paper examines Ricardo's value theory paying particular attention to his treatment of time. The familiar dichotomy in Ricardo's work between a labour measure of value and a cost of production theory has polarized opinion since the first publication of the Principles of Political Economy. Through a reading of Marx's critique of Ricardo, the paper argues that there is a fundamental incompatibility between the 'time of labour' and the 'time of capital.'

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Development and geography: current debates in historical perspective

Draft abstract for paper for the Annual Conference of the Association for Heterodox Economics, London, July 2005.

Hugh Goodacre (h.goodacre@city.ac.uk)

A 'geographical turn' has now been under way in mainstream economics for more than a decade, yet it has still not led to any substantial co-operation with geographers. The field of development economics provides particularly suitable terrain on which to survey the inter-disciplinary frictions which account for this situation. Accordingly, the different paths followed by these disciplines and sub-disciplines are here traced, followed by an outline of the 'geographical turn' in the development economics of Paul Krugman and Jeff Sachs. A comparison of these two contrasting geographical initiatives also provides the opportunity to address some wider issues regarding the current situation of economics, both internally and in its relations with its neighbouring disciplines. In conclusion, it is argued that to advance beyond the current situation of inter-disciplinary stand-off and forge a more inclusive and constructive approach to the geography of development, it is necessary to centralize the fundamental issues of the political economy and historical legacy of colonialism.

Title: William Petty and the roots of economics
Author: Hugh Goodacre, City University, London

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There is a widespread assumption among economists - not always explicit but nonetheless influential - that the roots of their discipline lie in the Enlightenment movement in eighteenth-century philosophy, a movement which is assumed, in turn, to reflect a new capitalist ethos of free competition in the market.

However, as historians of economic thought have long been aware, the analytical apparatus prevailing among economists today had, by and large, already been forged and set to work, in primitive form, in the context of the bureaucratic-military officialdom and predatory colonialism that characterised the Europe of the preceding century. The present paper singles out some current debates on economic theory - both within the economics discipline itself and between economists and other social scientists - and places them in apposition to aspects of the writings of William Petty (1623-87), whose writings not only anticipate much subsequent economic theory and methodology, but also, conveniently, illustrate the pre-Enlightenment ethos in its most unabashed form.

This is shown to open up new opportunities for the reassessment of the analytical capacity - and ethical acceptability - of concepts still in use by economists today.

Downward Curve of Capitalist Development: debt-deflation and the Long Cycle debate re-considered

Brian Grogan

The world economy is in the initial stages of a new great depression. This has engendered growing inter-imperialist political and trade rivalry, leading to wars for markets and political spheres of influence. The hitherto verities of neo-liberal academic economists and commentators have all been shattered. There is no "new economic paradigm" where the business cycle no longer existed. The 2001 recession knocked the Goldilocks economy on the head. Further, it is now clear that dotcom(edu), and the TMT sector in general did not mark a new industrial revolution. And, there was, indeed, massive asset price inflation. To be sure, new saviours and new crutches have been identified. China, it seems, is going to drag the world economy into a new Golden Age; and housing has taken over where the stock market left off (the "wealth effect"). Neither of these elements can lead to a new period of sustained economic growth. To the contrary, the grotesque imbalances in the world economy, stoked up during the Long Stagnation, are unlikely to be benignly resolved.

In attempting to establish the necessary framework to understand this conjuncture, we re-open the debate over the Kondratiev "Long Cycle" theory. This thesis was the subject of animated exchanges in the inter-war years, and once again in the 1980s as the duration of the period of anaemic growth became clear. We will argue that during the dying years of the twentieth century, this Long Stagnation tipped into a secular *downward* path heralding the most severe economic dislocation since the 1930s. The merit of the Long Cycle theorists is in drawing fundamental distinctions between a depression and a recession. However, not only does the business cycle continue within a downward phase, but also secular downward curves result from exogenous factors as opposed to the endogenously generated business cycle. To that degree, we will propound an alternative thesis to the classical long cycle approach.

Debt deflation is once again on the agenda. The popping of housing price bubble together with further substantial falls in the stock market will threaten a prolonged period of debt deflation and the most severe worldwide economic dislocation since the 1930s. Deflation is marked not only by an average fall in the price of goods and services, but also by a fall in the price of assets. This latter raises the real value of net debt discouraging consumption and investment. Once debt deflation has taken hold, it cannot be resolved by monetary means. Panic-stricken measures to flood the market with liquidity may well produce a series of inflationary spikes, but will do nothing to resolve the underlying debt deflation.

A central tenet of the whole exposition will be the role of the falling rate of profit. The framework for this will be quite other than that propounded by the much-vaunted left radical Robert Brenner who locates the essence of this in inter-capitalist competition rather than the class struggle. In defending the classical Marxist approach, we will have occasion to challenge other Marxist analyses as advanced by influential authors such as Alex Callinicos and Fred Moseley.

Key words: Depression, asset price bubble, downward curve, Kondratiev long cycles, debt deflation, falling rate of profit.

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Veblen, Schumpeter and Technology

By probing Thorstein B. Veblen's (1857-1929) and Joseph A. Schumpeter's (1883-1950) views, my presentation aims at displaying an institutional economic approach to technology. Most of the contemporary studies on technological change are under the dominance of neoclassical economics. Because of their inadequacies in revealing the complex structure of technological phenomena due to their adherence to mechanistic and deterministic postulations of orthodox economic theory, an institutional approach to technology has become a must. Therefore, today, the fundamental ideas of Veblen and Schumpeter concerning technology are used heavily to constitute an alternative approach by evolutionary and institutionalist economists in their technical, philosophical, sociological and methodological studies. On the other side, by comparison, Schumpeterian agenda today is mostly used to analyze dynamic technological innovation process in capitalist motion. Particularly, 'New Evolutionary Theory' that has gained significant place vis-à-vis neoclassical growth theories for about last thirty years in the economics of technology literature is called a neo-Schumpeterian wave. In juxtaposition, looking closer, it becomes manifest that it is also traceable to Veblenian notions concerning the evolutionary process of institutions. Thus, if Veblen's viewpoint related to technology and institutions seems to have been neglected by this new evolutionary theory, in effect, his legacy has always remained behind contemporary descriptive and institutionalist analyses as much as that of Schumpeter. In this sense, my presentation, based upon a comparative analysis of Veblen and Schumpeter, is engaged with presenting an alternative conceptual framework for technology studies by elucidating the congruent and conflicting arguments of Veblen and Schumpeter on technology. By considering the different periods from which they take off in order to reveal capitalist motion, my presentation also shows that Veblen's and Schumpeter's visions present us with

alternative technological and economic processes corresponding to two different phases of historical capitalist development.

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Joseph Halevi (University of Sydney and Université Pierre Mendès France, Grenoble)

"The European predicament: an incomplete oligopolistic space impossible to complete."

This paper will analyze the political economy of the European Union with special reference to the Eurozone.

It will be argued that the crucial axis on which the political economy of the Eurozone evolves is still determined by the main forces that shaped the Euro of the Common market. The contradictions inherent in those forces will be highlighted and gauged in the context of (a) the end of fixed exchange rates in 1971, (b) the formation and end of the EMS (1979-1992/3), and (c) the ensuing acceleration towards the Euro during the successful Giscard d'Estaing-Helmut Schmidt anti-Kohl offensive in 1995-96. By using concepts linked to Kalecki and Sylos-Labini it will be argued that the virtual impossibility of institutionalizing a common oligopolistic space in Europe is a major factor in the impossibility of even a minimalist form of Keynesian policies.

Association for Heterodox Economics 7th Annual Conference 2005
'Pluralism in Economics', 15-17 July 2005.

Abstract

Can There Be An Economics Based on Religion? The Case of Islamic Economics.

In recent decades there has been a renewed pessimism towards the claim of universality of neoclassical economics. Hence, alternative approaches with their own methodological positions have been put forward. The Association of Heterodox Economics has argued for 'pluralism in economics' and the need to be open to 'non-mainstream modes'. But just how open is the call for pluralism? Would the proponents of non-mainstream economics accept an approach to economics that derives its worldview and vision from sources of knowledge that go beyond reason and sense observation?

This paper has two objectives. First, to review selected ideas discussed in non-mainstream literature. For this purpose, we propose to make a brief survey of writings found in various issues of Post Autistic Economics Review (PAER). We end this part of the paper by connecting the discussions in PAER to some works that have tried to debate the relationship of economics to religion, as understood by the mainly 'western' experience. For this we refer specifically to two books edited by Brennan/Waterman (1994) and Dean/Waterman (1999). It will be clear that Islam and discussions by Muslim scholars do not feature in the existing discussions.

Second, the paper puts forward this missing religious tradition and discusses, mainly from an epistemological perspective, the 'logic' of Islamic economics focusing primarily on the process of theory building. Supported by views of scholars such as Schumpeter (1954) and Heilbroner (1988), we argue that economics is preceded by a pre-analytic 'vision'. We discuss certain aspects of this vision that represents the foundations of Islamic economics, followed by the way in which Islamic economics is developed. We take a comparative view of how economic model/theory building is developed in mainstream as well as Islamic economics. We end the paper by putting forward certain queries regarding the scope, method and boundaries of economics and make a case for why pluralism in economics should also consider an economics based on religion.

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'Towards a framework for the economic analysis of Fair Trade'

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Abstract

This aim of this paper is to work towards an appropriate framework for the economic analysis of the emerging phenomenon of Fair Trade, understood as a trading relationship between ethical consumers and poor producer households. The objective is to use the tools of orthodox supply and demand analysis, but taking account of failures of competition and involuntary unemployment, in order to shed light on an increasingly important and topical policy issue. This is partly a response to the uncritical use of free market theory by critics such as the Adam Smith Institute.

I argue that Fair Trade can be more usefully understood in terms of imperfect competition in the labour market, rather than as either philanthropy or 'voluntary protectionism'. To some extent its analysis is an exercise in labour economics, although Fair Trade cannot usefully be defined without reference to the ethical consumer; however, I argue that Fair Trade is not defined by, and does not depend on, the payment by consumers of a premium over the 'competitive' price. A central claim is that Fair Trade cannot be captured by a model which is institution-free, such as the neoClassical models of the current literature, and the analysis centres on the role of the 'local fair trade organisation' formed by or for the benefit of poor households.

The theory of employer monopsony is applied in conjunction with the derivation of a Keynesian rising labour supply curve under involuntary unemployment, based on the opportunity cost of inferior domestic production or self-employment rather than of leisure. The loose neoClassical use of leisure as a catch-all is critically evaluated.

The role of the ethical consumer, and fair trade buyer organisations, is identified as enabling poor households, through the local fair trade organisations, to develop the technology to compete in global product markets. The key contribution is a long-term and supportive trading relationship, which reduces performance risk, allows learning by doing and long-term planning and investment, and overcomes barriers to product and credit markets. The role of any fair trade premium should be seen as an investment, either in allowing local fair trade organisations to acquire efficient technology, including diversification away from vulnerable commodities, or in the human capital of individual households.

The analysis concludes that Fair Trade should not mean paying more than the local market wage to households, as opposed to the local fair trade organisations; that the ethical consumer is not the core of Fair Trade, but a key resource; and that Fair Trade strengthens competition, promotes rather than hindering allocative efficiency, has nothing to do with protection, and does not fundamentally depend on philanthropy.

JEL: F16, J42, J54 **keywords:** fair trade, monopsony, involuntary unemployment

Interest rate, debt, distribution and capital accumulation in a post-Kaleckian model

Eckhard Hein

Abstract

The introduction of monetary variables into post-Keynesian models of distribution and growth is an ongoing process. Lavoie (1995) has proposed a Kaleckian 'Minsky-Steindl-model' of distribution and growth, incorporating the effects debt and debt services have on short and long run capital accumulation. This attempt, however, can be extended because neither has the rate of capacity utilisation been endogenously determined, nor have the potential effects of interest rate variations on distribution between wages and gross profits explicitly been incorporated in the model. In the present paper we therefore augment Lavoie's 'Minsky-Steindl-model', building our analysis on a Kaleckian distribution and growth model which has already taken into account distribution effects of interest rate variations on the short run equilibrium. Into this model the effects of debt and debt services are explicitly introduced, the effects of interest rate variations on the short and the long run equilibrium are derived, and the results are compared to those of Lavoie's 'Minsky-Steindl-model'. It is shown, that the effects of interest variations on the endogenously determined equilibrium values of the model do not only depend on the parameter values in the savings and investment functions but also on initial conditions with respect to the interest rate and the debt-capital-ratio.

JEL-classification: E12, E22, E25, E44, O42

Keywords: Interest rate, debt, distribution, capital accumulation

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The Behavioral Foundations of Austrian, New Institutional, and Neoclassical Economics

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-Abstract-

Behavioral and experimental economics are areas of growing prominence within economics. Both of these subdisciplines present challenges to the neoclassical theory of individual behavior, which is based on individuals maximizing their utilities by making choices within the framework of utility functions that are assumed to have certain well-defined characteristics. Results in both behavioral and experimental economics have shown that it is common for individual behavior to systematically deviate from the neoclassical axioms of utility maximization. Austrian and new institutional economics are also based on axiomatic theories of utility maximization, but the assumptions underlying utility-maximizing behavior are much weaker in the Austrian and new institutional approaches. As a result, they have more solid behavioral foundations, and are less subject to challenge by the empirical findings of behavioral and experimental economics.

After discussing the different behavioral foundations of Austrian, new institutional, and neoclassical economics, the paper goes on to look at some implications. One implication is that their approaches to welfare economics differ. Austrian and new institutional welfare economics focuses more on the process by which welfare can be improved, whereas neoclassical welfare economics focuses on a welfare-maximizing outcome and examines factors that can stand in the way of achieving that outcome. This leads to different approaches to policy analysis among these three approaches, although there are close similarities between the Austrian and new institutional approaches to policy analysis. The main strengths of neoclassical economics are in its insights into the equilibrating forces in markets, but the neoclassical framework often produces misleading policy conclusions. Neoclassical policy conclusions are often overly-strong because of its behavioral foundations which are challenged by behavioral and experimental economics, and are often misleading because of the comparative static nature of neoclassical welfare economics. For purposes of policy analysis, the Austrian and new institutional approaches provide better insights.

**Economics as the allocation of values: neoliberalism:
the pathologies of commercialism capitalism and
contemporary imperatives to a
progressive conservative narrative**

David Donald & Alan Hutton

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DRAFT

A paper presented to the
**Association for Social Economics
Annual Meeting**

Philadelphia, January 2005

Abstract

The rhetoric of the neoliberal 'project' is a particular interpretation rooted in the family of understandings that is the meta-ideology of liberalism. It has found the USA and UK particularly hospitable to its narrative but its influence has had a global reach. We assert that its prominence (as understandings and prescriptions) had a provenance in events and circumstances of 1970s, was reinforced and consolidated in 1980s and 90s and evolved from a tendency into a more or less (retrospectively?) elaborated account in the latter period. In this paper we argue that the allocation of values is central to economic activity and to - related - explanations of it. Neoliberalism serves interests, meets contingencies, accommodates culture, mobilizes supports, and so on in a framework of values, policies and actions that pre-determine economic outcomes. Reactions to the outcomes are often contradictory and are at worst perverse. To investigate this we present a small number of instances and use them to suggest that the contemporary economic predicament requires a more effective and efficient ideological narrative. A form of progressive conservatism that promotes a political economy of security (nationally, internationally, at work and in the local community) could be more in tune with the temper of our times. And the exploration of such a counter understanding sheds light on the nature of the neoliberal project.

An adaptive expectations monetary stabilisation project in 17th-Century Spain: Francisco Antonio de Alarcón's proposal (1642)

Claudia de Lozanne Jefferies

This paper is a presentation and analysis of an unpublished manuscript written in 1642 by Francisco Antonio de Alarcón and addressed to Phillip IV, king of Spain. The document is a stabilisation proposal, which describes a stabilisation model that includes the notion of adaptive expectations.

It is intended that this paper will be developed into a first ever bilingual Spanish-English edition of Alarcón's manuscript. A preliminary transcription of the document will be included as an appendix.

Francisco Antonio de Alarcón was an important political figure during the ministry of the Count-Duke of Olivares (1618-1642), however no biographical study about him has ever been carried out. In order to create a picture of him, some information has been collected from different sources, published and unpublished, and put together as part of this work.

The purpose of this paper is to highlight Alarcón's manuscript as an important source for the history of monetary thought of the Early Modern era. The manuscript carries the legacy of the School of Salamanca and uses its monetary theory to interpret the problems of inflation of 17th-Century Castile. It can also be seen as part of two important discussions that were taking place at that time: The discussion about how to put an end to monetary instability from a technical point of view, and the discussion about the moral consequences of carrying out a stabilisation policy.

The manuscript fuses the trends in political thought and marks a transition in the style of stabilisation policy from one based on natural law to one, which, by applying the concept of a "reason of state", evokes the ideas of Tacitus and Machiavelli.

The Relation of Morality to Political Economy in Hume

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Abstract

In his *Treatise on Human Nature* Hume argues that Reason does not motivate action, but rather directs our judgement by informing us about their causes and effects. He distances, in his argument, passions from Reason, by claiming that passions are not ideas, do not represent anything, are self-contained, thus cannot be contradictory to truth or Reason. Moral judgements, according to Hume, are passions and as such they cannot be contrary to Reason. For Hume, morality does not consist of immutable principles to be discovered by Reason; it is based on human passions, which, through repetition, human beings come to associate with certain moral characteristics. Following on this statement, I explore in this paper, the following point: to the extent economic behaviour is determined by passions such as greed, benevolence, pleasure, we cannot separate economic activity and morality. As an extension, morality and political economy are inextricably linked in Hume. This suggests that ethics, as the study of morality and political economy, as the study of economic behaviour and institutions are inseparable subjects. It is interesting to observe this in the work of the philosopher, who was the main influence on Adam Smith, one of the most important precursors of modern Economics. The paper underlines the importance of understanding the evolution of the history of economic thinking, which led to modern day economics, which, though claiming Hume via Smith as one of its progenitors, argues for a complete separation of ethics and economics.

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Abstract of Proposed Paper for Association for
Heterodox Economics 7th Annual Conference, 2005

Title: The Anti-Pluralistic Foundations of Marxian and Sraffian Economics

Abstract

The fundamental premise of modern Marxian and Sraffian economics has been that Karl Marx's critique of political economy has been proven to be marred by logical errors. Consequently, the fundamental project of Marxian and Sraffian economics has been to correct these errors and thereby re-establish, on a sounder logical basis, those aspects of Marx's work that can be salvaged. This paper argues, however, that the proofs of error have themselves been disproved, and that the disproofs have stood the test of time. Several consequences follow from these facts:

- there is no logical need to correct Marx's economic theory;
- since corrections are not logically necessary, Marxist and Sraffian economists' revisions of his theory are actually alternative theories;
- since Marx's theory has not been ruled out on logical or empirical grounds, pluralistic practice requires that it be recognized as legitimate and given space; and
- since the Marxian and Sraffian critics refuse to recognize and make space for it, despite their inability to prove logical error, their actual practice is anti-pluralistic.

The first section of the paper lays out its main thesis and the story told by Marxian and Sraffian economists. The second section briefly reviews the alleged proofs of inconsistency and error, as well as the disproofs. The third section shows that Marx's Marxian and Sraffian critics have acknowledged – very tacitly and grudgingly – that the supposed proofs of inconsistency and error are flawed. The fourth section discusses why these critics have nonetheless refused to correct the historical record, and why they still refuse to recognize and make space for Marx's theory as a legitimate alternative to their own theories. A brief conclusion follows.

Proposal for single paper

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Fiscal Policy in Postsocialist Transition

The collapse of socialist economies in Eastern Europe and former Soviet Union, as well as their subsequent transition towards market economies, was arguably one of the most far-reaching economic events of the 20th century. Pain accompanied the economic transition process; all countries experienced a major fall in output after the start of reforms. The growth performance in transition economies was widely different by countries. The fall finished in 1992 in Poland, but was still present until 2000 in Ukraine. In 2003 only 6 countries have outrun their 1989 level of GDP: Poland, Slovenia, Albania, Hungary, Slovakia and the Czech Republic.

The usual papers examine the fiscal policy issues by fore-judgement, the initial conditions or the analytical tools determine the main results. To avoid this obvious fault, in my analysis I used simple methods in my work (calculations of means and standard deviations). In the literature of the detailed budget analysis, the definition of fiscal restrictions and expansions is always problematic. Different authors (Alesina, Perotti, Giavazzi, Pagano, Purfield, Blanchard) use different definitions generally based on fix change of cyclically adjusted primary budget deficit. As in transition economies, the stability of fiscal policy was widely disparate by countries, I prefer to use relative measures.

The fiscal restrictions and the expansions are different in volume and structure, as well. Durable restrictions are larger than non-durable ones, while durable expansions are smaller. During restrictions indirect tools are efficient, while in expansions direct ones. The composition, the structure matter, and the volume, too. A larger change of the same direction can result diametrically different effects. Because of the particularities of the transition process, concrete details are not analogous to earlier results of advanced economies.

Finally, an interesting idea can be found during the analysis of macroeconomic variables. The effect on growth is positive in the case of two type of actions: the temporary restriction and the small expansion. Regarding other variables, the optimal fiscal policy is constructed from one year temporary restriction followed by two years of small expansion.

The "average" transition economy is growing in increasing pace, the consumption (by some fluctuation) is growing, the investment is growing with declining interest rate and rising saving rate and the balance of commerce is sustainable. This great finding is unfortunately exposed, we can not check if this policy mix is well based. It is another question that a known strategy is self-fulfilling or self-destroying. I think that a never declared, but used strategy (optimal cycle) would have had the success during the transition. We have very little empirical evidence. The country nearest to this optimum was Estonia. Estonia, the foregoer of the Baltic States exhibited the quickest growth after the transformational recession. This apprehension is, even not warranty, but a proof for the appositeness of the previous calculations.

Comparison of Euclid-Cartesian and Babilonian reasoning in economics and two implications

Levando D.¹

Summary

This paper compares two ways of economic reasoning – Euclide-Cartesian and Babilonian. They can be compared by knowledge content, mean of inference, inference control, applicability requirements. This comparison has the educational application. Economic model-based education replicates engineering one with significant exception. In engineering there are special courses on construction design, which require combination of knowledge and reasoning from different subjects and teach discussion of competing alternatives. Lack of similar subjects in economic teaching is only partially compensated by research seminars, where inference is guided by *ceteris paribus* logical principle, what prevents combination of models. Another conclusion from comparison comes from using *Okkam principle* as a toolkit for constructing Euclide-Cartesian models from Babilonian. This has two implications – not enough economic support for non-linear models of economic dynamics and possible difference between concepts of equilibrium with finite outcome and infinite cycles. In other words: do concepts of economic equilibrium in game theory and in models of non-linear economic dynamics are the same or not? First type of equilibrium is described by the feature $\dot{x} = 0$, the second come to some cyclical behavior and $\dot{x} \neq 0$ in equilibrium. There are arguments that there are some differences.

Social Dividends and General Rules in Economic Planning

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ABSTRACT: Most scholars of the Interwar Debate on Socialism interpret Lange and Lerner as having refuted Mises and Hayek or as having failed to address their challenge. This paper argues that Lange and Lerner addressed the central issue that Mises raised, but failed to deal with it adequately. Lange did this in discussions with Lerner over social dividends and general rules for policy. This discussion related to the incentive and informational issues in the Mises/Hayek critique of Socialism, and appears to have been influenced by Chicago School thinking.

UNDER REVIEW AT:

JEL CODE:

KEYWORDS: Social Investment, Rules versus Discretion

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Pluralism of Determinisms: economic theory and development in the Philippines (1984-1992)

Robbert Maseland & Jan Peil

An analysis of economic development requires a dynamic theory of institutions. Institutions apply to relations and mechanisms in the economic system, not to variables. To acknowledge the role of institutions, therefore, is to say that the mechanisms and relations in economic systems are contingent and should not be considered universal. If we are looking for a theory of development, then, it is a mistake to confront it as a closed system (Dow 2002)¹.

Within economics, one could distinguish between two kinds of theory about development. On the one hand, there are economists who view development as a movement towards a future state of equilibrium. Because of economic principles of competition and rational behaviour, the efficient solution will materialise (Solow-type growth theory; institutionalism like Williamson's (1985)). On the other hand, there are theories that explain development as driven by the past. Path-dependency, cultural differences, and historically established institutions shape the direction of development of societies (see North (1990) as a prime example). In their extreme forms, these ideas amount to two kinds of determinism; the first represents economic determinism, the second cultural or historical determinism.

In this paper, we make a shift to a meta-theoretical level by arguing that, by contrast, development should be considered as constructed in the present. Based on an analysis of economic development and reform processes in the Philippines during the 1980s, it is argued that, instead of defining development as a teleological process or as a process building on the past, the problem of development should essentially be seen as being about the question how we relate future goals and past experiences to present action. In this sense, it is a question of conceptualisation of history, which is an act conducted within and constitutive of a present political context.

From a methodological point of view, this implies that theories of development—such as neoclassical economics—are themselves developmental acts, making particular actions in the present inevitable (the unavoidability of SAP's is an example). Since knowledge is thus constitutive of social reality (following Giddens (1997)), we argue that a plurality of theories as substitutes is desirable for reasons of emancipation. The theoretical pluralism we endorse is ethico-politically motivated, as it is rooted in an ontological pluralism, which leaves no room for other considerations (in contrast with Mäki (2002)). Dominance by one theory adds to the

¹ However, we distinguish ourselves from Dow (2002) in claiming that, after the linguistic turn, to be looking for universal economic laws even at the most fundamental level is not appropriate either.

inevitability of current actions within a history concept the inevitability of the history concept itself. Theoretical plurality, by contrast, highlights the plurality in worlds that could be, thus opening possibilities for social action that were closed off before. Rising above the pitfalls of reified neoclassical economic theory and essentialist cultural determinism, such an approach positions the problem of development where it belongs: in the political-economic realm. However, it will be shown that such discursivity necessarily comes at a price. Where structures are contested, social power is eroded, which the tragic history of the Philippines under President Aquino illustrates. Thus, ethico-political considerations both justify and check theoretical pluralism.

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Friday, 28 January 2005.

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ROSES – University Paris I Panthéon-Sorbonne

Association for Heterodox Economics – 7th Annual Conference 2005 - Paper proposal.

Failure of the Russian Health Care System Reform during the 1990s.

Blind confidence in market mechanisms and little concern about initial conditions.

The proposed paper analyses the reform process of the Russian Healthcare system which was originally designed in the early nineties and was put in practise in 1993.

The main objective of the reform, in a period of near bankruptcy of the Russian State, was to limit budgetary contribution of the state in the healthcare system – inherited healthcare was indeed fully financed by the central budget – replacing it by a mainly payroll-based financing. The system was explicitly supposed to guaranty the same universal treatment of the Russian population, and even to cope with inherited weaknesses in terms of treatment while facing the new sanitary challenges of the transition years.

The system introduced in 1991 relied on the fundamental assumption that market forces would do it all and that they will be strong enough to make previous institutions vanish instantaneously.

This system was focused on the central role of private healthcare insurance companies and free choice of their affiliation company by Russian citizens. Companies were supposed to compete in order to gain market shares, as payroll contributions collected by a public healthcare fund would have been shared between them proportionally to these market shares. They were then supposed to contract with healthcare providers (existing public dispensaries and hospitals, but also newly authorized private healthcare institutions) on a fee for service basis, freely negotiating in order to cut prices down in order to improve their margins. This would all together introduce a competition between providers, improve quality at a lower cost and moreover introduce new remuneration mechanisms and improved revenues for health practitioners. This would allow a lower financial contribution of the State (but also a loss of control upon quality of treatments and health priorities of the nation).

Those two complementary competition mechanisms proved inoperative when they were applied starting in 1993, leading to under-financing of the system and further deterioration of the health status of the Russian population, with an increase in health inequalities. Due to practical problems the application of those new mechanisms was in fact partial, leaving the country with a hybrid and inoperative healthcare system.

The main proposed reasons for this failure are the blind trust in market mechanisms and underestimation of difficulties of application in a large country in transition.

The paper analyses phenomena such as spatial problems: collusion between companies in profitable regions, lack of any private insurance company in severely depressed arrears.

Problems linked with authorities', practitioners' and citizens' inherited habits and knowledge of the mechanisms of the newly introduced system are also exposed.

It also seems that the achievement of such a reform would have required that the whole Russian society instantaneously swapped to all pervasive market mechanisms.

Finally the relevance of the introduction of such all pervasive market mechanisms, while reducing the role of the State in healthcare, is discussed.

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Abstract

“The X-Club: Sex, Biology, and Political Economy in the 19th Century”

Association for Heterodox Economics

July 2005

London, UK

In January 2005 Lawrence H. Summers, president of Harvard University, unleashed a firestorm of controversy by suggesting that there may perhaps be fewer women in math and science careers because of innate differences between the sexes. Biology, not political economy or sociology it seems, might explain the paucity of female practitioners in the elite hall of science.

Summers comments echoed in a very eerie way the comments of a previous president of Harvard University, Charles Eliot who, when faced with the pressure to accept women as students in the last third of the 19th century, also articulated a theory of biological difference. Accepting and embracing the work of Edward H. Clark of the Harvard Medical School, Eliot provided his explanation as to why women are not suited for the higher learning – it was at odds with nature.

This paper explores the use of science in the exclusion of women in higher education in the 19th century. Specifically, I focus on the X-Club as a mechanism to not only advance the careers of these so-called “men of science” but also the role that the X-Club played in facilitating exchange of information useful for excluding women of the role of women in higher education. I will examine the cultural response to the increased participation of women and the ways in which medical science and economic theory were used to justify women’s exclusion and rationalize their segregation in the higher learning.

I examine the ways in which concepts developed in the natural sciences – concepts such as the notions of energy which formed the foundation of the first law of thermodynamics – were adopted by Herbert Spencer and applied as a guiding metaphor for the human body. The theory which subsequently came to be known as the “closed energy theory,” – was propagated by physicians such as the famous Dr. Edward Clark and used to argue that too much education for women would harm their physical as well as mental health.

Just as Herbert Spencer took Darwinian theories of evolution and used them to provide a conceptual framework to rationalize capitalism, he took theories of energy and used them to provide a conceptual framework to interpret women’s biology in such a manner as to constrain women’s participation in the higher learning. The paper provides us with an examination of the ways in which complex and often contradictory constructions of gender as a biological category are used to rationalize women’s exclusion, justify their segregation, and shape their experience in the higher learning. The history of higher education cannot be read or interpreted outside the context of gender and the power relationships that are inherently an aspect of the academic enterprise. The right to determine the canon is one that carries with it a good deal of power and access to that right has been a contested terrain throughout the 19th and the 20th centuries.

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Methodological Triangulation at the Bank of England: An Investigation

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Abstract

In a series of previous papers, we have explored the methodological implications of open systems for economics. One such implication is that a strategy of triangulation – mixing of methods within inference – is legitimated. However, most economists remain opposed to triangulation except for pragmatic reasons. This paper briefly discusses types of triangulation and different rationales for it. This taxonomy is then applied to the Bank of England's Monetary Policy Committee decision-making process. That process is complex and involves various data types and methods of data collection and analysis. But is it triangulation? And why does it occur?

The paper assesses the extent to which triangulation is used; and, more importantly, the motives for triangulation, as evident in official Bank policy documentation, speeches, etc. It can be seen that the Bank engages in triangulation to a limited extent only: the Bank's forecasting process remains driven by an ethos of large-scale macroeconomic modelling in which other methods or types of data are pragmatic augmentations of that main model. Moreover, there is little evidence for triangulation motivated by either epistemological concerns such as general uncertainty or fallibilism; or by ontological concerns such as open systems.

Keywords: triangulation, monetary policy, open systems, pragmatism, complexity

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Simon Mohun (Queen Mary, University of London, UK)

The US rate of profit, 1964-2001

In the decomposition of the U.S. average pre-tax rate of profit as the product of profit share and capital productivity, this paper considers the role of capital productivity over the period 1964 to 2001. In a classical surplus-based perspective, if the distinctions between productive and unproductive labour and productive and unproductive capital are used, and if capacity utilization is explicitly accounted for, then real capital productivity is unimportant in any proximate explanation of the decline in overall capital productivity. Changes in capacity utilization and changes in relative prices account for almost all of its decline to its trough in 1982. But changes in capacity utilization play only a small role in the proximate explanation of rising capital productivity since 1982, a rise that is accounted for by a reversal of the movement in relative prices, and by rising real capital productivity. The paper also investigates the robustness of these results to the productive-unproductive distinction, and to accounting for changes in capacity utilization.

Macro-determinants of UK Regional Unemployment and the Role of Employment Flexibility

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Abstract

This paper explores the macroeconomic determinants of UK regional unemployment and their relation to the influences on unemployment exerted by the levels and types of employment flexibility in the country. Theoretically the paper draws on Keynesian and monetarist explanations of unemployment and elaborates on how the two main theoretical approaches perceive the role of price stability, accumulation, macroeconomic shocks and labour market rigidities for unemployment. Empirically, the analysis relies on a novel set of flexibility indicators and examines their impact on regional unemployment, unemployment persistence, and adjustment to economic shocks. The results provide useful insights into the explored relationships and highlight the areas and conditions under which employment flexibility helps achieve favourable employment outcomes. The implications of the findings are discussed in the concluding section.

Keywords: Employment flexibility, Regional unemployment, NAIRU and Keynesian explanations, Unemployment persistence and adjustments

JEL codes: E12, E24, E31, J50, J61, J64, L16, L51, R11, R23, R38

The Capital Controversy in Historical Perspective

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The capital theory debate is generally interpreted as a technical controversy concerning the specification of capital in the neoclassical theory of growth and distribution. Although Piero Sraffa's *Production of Commodities by Means of Commodities* is accorded a central role in the controversy, the connection of the debate to Sraffa's larger project—the reconstruction of the theoretical approach of the classical political economists—is not well understood. It is perhaps only a slight oversimplification to say that while one side in the debate was acutely aware of this historical dimension, the other was concerned mainly with technical issues. But the technical dimensions of the problem themselves have a history that dates back to Ricardo, who encountered the problem of measuring capital in his attempt to explain the profit rate. The problem was not fatal to Ricardo's theory, which does not require that the magnitude of capital be specified prior to the determination of prices and the profit rate; but its resolution in neoclassical theory requires a change in the object of analysis—that is, the abandonment of the long-period method of analysis in favor of models of intertemporal general equilibrium.

The lack of attention to the historical background has also led capital critique to be confused with the problem of capital aggregation in empirical models aimed at testing neoclassical growth theory. They are in fact two distinct issues that intersect at one juncture: the problem of the measurement of capital. In the case of the Cambridge debates the measurement of capital is problematic because the prices of capital goods change when distribution changes; in the standard production function literature on aggregation, the problem is whether production function can be constructed that exhibits the properties needed to establish downward-sloping factor demand functions. Similarly the assertion, by Christopher Bliss and others, that the aggregation problems associated with labor and land are comparable to those associated with capital, is misplaced: the claim exemplifies the muddling of the two kinds of measurement problems mentioned above. Capital is problematic because its endowment must be specified independently of distribution in order to determine the profit rate. This problem doesn't arise in connection with labor or land, though there may be other problems of aggregation involving them that must be resolved when constructing models designed for empirical testing.

The paper will trace the responses to the capital critique, with a view to assessing its ultimate impact. The early neoclassical reactions combined an awareness that a serious blow had been struck with a quite natural inclination to discount the magnitude of the damage. While the implications of the critique remain troubling for some orthodox economists, the dominant position is that the critique was much ado about nothing. We shall consider the extent to which the impact of the critique may have been undermined by divisions among the opponents of neoclassical orthodoxy, whose own methodological disagreements weakened their ability to sustain a robust alternative to the mainstream.

Franco Modigliani and the Keynesian Legacy

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&

Steve Pressman (Monmouth University, West Long Branch, New Jersey, USA)

Franco Modigliani was one of the main architects of the neoclassical synthesis between Keynes's principle of effective demand and the orthodox theory of value and distribution. Modigliani, a refugee from Mussolini's fascist regime, received his doctorate from the Graduate Faculty of The New School for Social Research in 1944, with a dissertation, written under the direction of Jacob Marschak and Adolph Lowe, that provided an important cornerstone of the postwar neoclassical synthesis. His career bridges two worlds—orthodox economics and the progressive tradition associated with the Graduate Faculty. The economists of the Graduate Faculty were somewhat ambivalent toward *The General Theory*; though sympathetic to its central message, they were critical of its essentially static approach and of its neglect of the role of structural imbalances in generating crises. This paper explores the relationship between Modigliani's contribution to the Keynesian revolution and the critical tradition of the Graduate Faculty. Modigliani was moving toward the mainstream even before he left the Graduate Faculty. But throughout his life he maintained a broadly progressive political outlook. We will (i) offer a critique of Modigliani's 1944 model as an interpretation of Keynes and as an account of how market economies function; (ii) assess the response of the New School economists to *The General Theory*; and (iii) reflect, in the light of Modigliani's career, upon the prospects for finding common ground with orthodox economists on policy questions.

Simon Mouatt: Senior Lecturer in Political Economy. Southampton Business School. simon.mouatt@solent.ac.uk, January 2005

BINARY ECONOMICS AND THE ACCUMULATION OF GLOBAL FINANCIAL POWER

An analysis of the impact of accumulated *financial power* upon the capitalist trajectory and the Binary economics approach to state/financial market relations

ABSTRACT

The control of financial resources has conferred (political) power to people, ever since the original development of money systems. However the nature and role of this power, relative to other power *sources*, has been difficult to determine. This paper attempts to construct a **general theory of financial power**, which indicates its role within capitalist mechanics and presents money as the primary (but not exclusive) source of power that determines present outcomes and historical transition. The paper suggests that this quality of money derives from the unique properties of *fungibility* and its *instigative* function within capitalist production.

Production power, for instance, is seen as a secondary source to financial power since the *modus operandi* of production is determined by the vagaries of the capitalist economic order whereas financial power is not constrained in the same manner. The paper subsequently questions the Hilferding notion of *finance capital* since, although there are times that the interests of financial and productive powers converge (often contextualised in German capitalism), this is not always the case. In times of conflicts of interest financial power will gain supremacy. The paper then utilizes the Marxian notion of the circuit of capital to illustrate that financial powers are the *bourgeois* decision-making class in global order. Whereas in Marx's time, relative proportions of financial power could be increased by wealth creation in the productive economy, in the present era an increasing accumulation dynamic in the financial markets means that this is not necessary.

The paper then considers the historical relationship between the state and the private banking sector, in terms of the control of credit creation, and examines the *binary economics* of the late Louis Kelso. This includes discussion of the nature of the credit system, compounded interest and the proposal for state-created 'interest free' money in order to spread the common ownership of productive capital.

A key hypothesis is that the nature of the capitalist economic order, and the privatised monopoly of credit creation, both hinder the use of financial power for the purposes of crisis prevention and even development and they, furthermore, contribute to the instability and disparity. The notion that redistribution (in the form of binary economics?) and enhanced multilateral regulation, in substantial form, are indispensable for such objectives is implicit. A further hypothesis is that, at present rates of credit accumulation,

debt will ultimately be replaced by redistribution as the only means of sustaining the interests of global capital and the neo-liberal agenda. Binary economics offers just such a workable proposal.

The paper draws most heavily upon the academic discipline of international political economy that seeks to examine the relationships between the political (often the state) and the economic, as well as the linkages between the local, national and global within the current globalisation discourse.

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New Forms of Organisational Governance

We observe that organisational restructuring is significantly changing the governing modes of economic exchange. On the one hand, we witness an increase in mergers & acquisitions, which substitutes market for hierarchy, leading to further economic concentration. On the other hand, we see an increase in outsourcing and subcontracting activities, appearing to replace hierarchy by market forms of governance. However, there is evidence that an increasing part of outsourcing activities is based on dependent business relationships. Dependent outsourcing refers to business relationships where subcontractors are formally self-employed (or declares herself as self-employed) but their conditions of work are similar to those of employees. They are economically - and in extreme cases even personally - dependent on their contractor. Dependent self-employed workers bear the entrepreneurial risk without having the entrepreneurial possibilities of independent self-employed persons because they do not appear on the external market since they have only one (major) contractor.

Organisational theorists have argued that employment (hierarchy) mitigates problems of hold-up and opportunism. This paper, however, argues that firms find other ways than hierarchy to reduce these problems. The key argument is that firms have established governance structures based on markets, hierarchies *and* relational contracts (i.e. unwritten codes and understandings or informal agreements) so that they are able to keep a substantial amount of control despite of sourcing out labour. In other words, by creating close (dependent) ties, the downstream party improves the trade-off between incentives (typically linked to market transactions) and control (typically linked to hierarchy).

It is argued that such dependent business relationships cannot be explained by the traditional market versus hierarchy approach. Instead, it is shown that dependent forms of outsourcing introduce elements of hierarchies into the market by using relational contracts that are additionally empowered by dependency (or the lack of alternative uses of resources) and hierarchical control elements. While the basics of the business relationship are written down in formal contracts, the actual structure and organisation relies on unwritten, relational contracts. It is shown that relational contracts are not only used to deal with non-contractible issues as suggested by the organisational economics literature, but also to increase the power of the downstream party through control and dependency. Furthermore, the organisational economics literature argues that every transaction can be linked to a most efficient organisational arrangement. This paper, however, finds that it is misleading to investigate single transactions, as some are embedded in others.

Using empirical evidence of the British and Austrian insurance industry, it is demonstrated that dependency in dependent business relationships is created, firstly, by the contractual restriction of alternative uses of resources, secondly, by support measures that bind the upstream party to the downstream party, thirdly, by relationship-specific investments made by the upstream party, and fourthly, by authority elements of the business relationship. In sum, it is empirically demonstrated that dependent long-term business relationships are based on relational contracts that are laced with elements of an hierarchical control mechanism.

Annual Heterodox Economics Conference, City University London, 15-17 July 2005

Abstract of proposed paper

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On homogeneity and pluralism within economic schools of thought

Schools of thought within economics and the social sciences are conventionally viewed as being constructed around clearly defined and accepted bodies of theory and methodological approach. Within economic analysis, these schools of thought have often taken on the characteristics of paradigms. For many economists there is only 'one' way of doing economics, and views about the right way to study economic issues are based upon assumed degrees of homogeneity. Neoclassical, institutional and Austrian approaches are automatically assumed to constitute schools of economic thought by their adherents. However, an examination of the range of theoretical and methodological approaches contained within these schools reveals differing levels of homogeneity and pluralism. The aim of this paper therefore is to explore the defining characteristics of a school of thought, the relationship between schools of thought and paradigms, and to examine the role of homogeneity and pluralism in determining the nature and tightness of the definition of schools of thought. The paper explores the nature of alternative criteria for defining the parameters of a school of thought, and develops a conceptual framework for identifying the defining characteristics of different schools of thought within economics analysis. This framework is then advanced as a possible mechanism for explaining the emergence of, and shifts in, paradigms within economic study, and the replacement of the era of sequential 'dominant' paradigms with the contemporary era of coexistent paradigms.

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Labour Market Institutions and Unemployment Revisited

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Abstract

In this paper the effects of institutional variables on unemployment are reinvestigated for nine OECD countries. The used framework allow for country specific estimates. In this case, the impact of the considered institutional variables on unemployment may differ across countries, not only in absolute terms but also in terms of sign. The main results are the following: First, there are remarkable differences across countries with respect to the estimated effects. Most of the considered variables have at least in one of the considered countries an unexpected effect. Secondly, the results support the hypothesis of interaction effects and theory of monopsonistic labour markets. Thirdly, based on a cross country comparison some evidence is found that some of the considered labour market institutions have a hump-shaped or U-shaped relation to the unemployment rate. All things considered, the results make strong distinctions clear, and the different economies should be extremely cautious to make a copy of the level of a certain labour market institution of the neighbours.

Keywords: Unemployment, vacancies, unemployment insurance, trade unions, employment determination

JEL classification: J 64, J63, J65, J51, E23

The regeneration of Marxian distinction between labour power and labour: for a counter-neoclassical labour exchange theory

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The main aim of this paper is to propose the regeneration of Marxian distinction between labour power and labour as the foundation for a counter-neoclassical labour exchange theory. In line with their uniform grasp of markets, neoclassical economists have assumed an ideal labour exchange where all working conditions are capable of being determined by the force of the market mechanism which adjusts maximising agents' labour demand and supply; consequently, there exists no room for the operation of extra-market factors. Without a doubt this tenet about the labour market, together with neoclassical economists' similar notions of other markets, ideologically upholds the present-day trend toward the globalisation of market-directed capitalism. Marxian economists have denied such a conception. Following Marx, they have claimed that the worker's actual labour quantity is determined in the production process independent of market relations, and the employer's capacity to extract labour over and above the value of labour power by his/her domination over the worker is its prime determinant.

Here, the place of capitalist exploitation is that of simultaneous principal power exertion in capitalist societies. As J. E. Roemer shows, however, exploitation in the Marxian sense can also be demonstrated by assuming a Walrasian model, which admits no exercise of extra-market power. Thus the issue of power ought to be distinguished from that of exploitation. Marxian economists have not, however, conducted careful investigations into that problem. As a result, they have not succeeded in presenting a cogent counter-neoclassical theory of labour exchange that substantiates the function of the extra-market worker-employer power relationship as

a major determinant of working conditions. This impairs the position of Marxian economics as a rival to the current dominance of market-directed capitalism.

I propose reconsidering the possibilities of Marxian distinction between labour power and power, and rehabilitating it for the establishment of the above theory. The distinction has chiefly been placed as the basis for the revelation of capitalist exploitation. However, I argue that its essence is to recognise the fundamental difference between labour power embodied in the worker as a human existence and material factors in general, and thus expose the peculiarity of the relation between labour power (factor) and labour (service). From there we can confirm the illegitimacy of the neoclassical labour market principle grounded on the reification of labour power, or the worker, and the inevitability of the intervention of the extra-market worker-employer power relationship in the determination of working conditions. This also validates the existence of such phenomena as involuntary unemployment, and sexual and racial employment discrimination in competitive capitalist economies, which is negated by neoclassical economists. In addition, the above argument throws light on limitations of traditional Marxian theories and suggests a new direction superceding them.

The Effect of Neoliberal Globalization on Labor's Share in Developing Countries

by

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Abstract

The aim of this paper is to discuss the outcomes of neoliberal globalization from the perspective of labor in the developing countries, with a particular emphasis on the crises that followed the substantial liberalization in capital accounts in the 1990s. Although a lot has been said about the effects of capital account liberalization on the macroeconomic performance of the economies, less attention is paid to the different effects on labor vs. capital. This paper analyses the outcomes of neoliberal globalization for labor in ten developing countries (Argentina, Brazil, Chile, Mexico, Turkey, Indonesia, Korea, Malaysia, Philippines, and Thailand), and focuses on the episodes of crisis as part of the general class struggle where the question on who will carry the burden of adjustment is a part of the struggle. The paper describes the corner stones of the regime of growth in the neoliberal era, by analyzing the trends in growth, investment, unemployment, and labor's share in income, and discusses the effects of the shocks generated by crises on these variables.

An analytical bargaining model is developed, where bargained nominal wage is a function of the employment rate, expected price, expected productivity, and the domestic and international conditions that affect the conditions of bargaining. Employment rate is modeled as a function of output and unit labor cost. Actual price is determined via a mark-up over variable labor and non-labor costs, where there is also a pass-through effect of the depreciation of the local currency via the cost of imported inputs. Solving the model for the share of wages in output, we get an equation for the wage share to be estimated

econometrically. The change in the wage share is estimated as a function of current and lagged growth, lagged change in the wage share, current and lagged rate of nominal depreciation, and the variables reflecting the policy shifts following the integration of the developing countries to the global economy via neoliberal policies. These variables are the changes in the government expenditures/GDP, the interest expenditures/total government budget, the ratio of exports and imports to GDP, and the foreign direct investment/GDP. Based on the estimation results, the cyclical effect of growth, as well as the persistence effects of a crisis will be discussed. The effects of currency crises are captured by the nominal depreciation rate, which lead to unexpected rates of inflation. The contraction in government spending is expected to have a negative effect on labor's share due to the decline in non-labor income, and the negative spill-over effects from lower public wages. Similarly the increase in interest payments is expected to have a negative effect. The increase in exports are expected to generate a negative effect under the pressure of international competition, eroding the bargaining power of workers, however this effect can be counter-balanced by a positive demand effect. Import penetration can have a negative effect due to increased competition, but again this effect depends on whether imports are complementary or substitute to domestic output. Finally the estimation will also test whether foreign direct investment has any effect at all, or whether it simply adapts the domestic wage conditions.

Keywords

Labor's share, developing countries, crisis, neoliberal policies, globalization

JEL

E240, O150, O190, J230, J300, F020

The Prospects of 'Reclaiming Development' vis-à-vis the Global 'Governance' Thesis

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Abstract:

In the first half of the sixty-year period following the 2nd World War, a state-led paradigm of 'regulation' had dominated the world within the economic domain of society. In the second half of the same period, a market-oriented paradigm of 'spontaneity' turned out to be prevalent in the form of the revival of a liberal creed. In terms of delivering their *developmental* promises, both paradigms can be said to have failed eventually. Nowadays, an apparently new paradigm is in the making while attempting to rely mainly on the market. This paradigm seems new since it tries to fuse the institutions of the state and civil society with the market-oriented economic processes. As such, a so-called global 'governance' thesis underlies this recent economic paradigm. The true nature of this thesis must be well understood by all the heterodox-minded economists who have a positive attitude towards 'reclaiming development.'

Reclaiming Development is the title of a recent book by two heterodox academics who have had recent contributions to rethinking development economics; namely, Ha-Joon Chang of the Cambridge University and Ilene Grabel of the University of Denver. In terms of the needs and aspirations of the developing world, the authors not only come with a rigorous refutation of the neo-liberal recipes of the past two decades, but also put forward a set of alternative policies that can yield developmental success. In its entirety, this highly thought-provoking book must be taken seriously as a truly heterodox attempt that can pave the way for a worldwide shift in developmental issues. All the same, we tend to play the devil's advocate in this paper, which is intended to be a constructive criticism directed towards 'reclaiming development.'

A careful reader can recognize that the alternative developmental agenda proposed within *Reclaiming Development* aims at resurrecting the 'state apparatus' from its current inactive status vis-à-vis the supremacy of the market. In this sense, it would be no exaggeration to assert that the book involves an attempt to revive a state-led paradigm of regulation, which had already been worn out. It is all the more ironical that this agenda has been proposed at a time when the global governance thesis is in ascendance. Unlike the previous neo-liberal recipes, this 'new' liberal thesis imposes a particular economic role upon the state. However, the state must work like a 'spontaneous' market mechanism in this new context. That is, the new ambition is most likely to involve a venture that may end up converting the 'artificial' institution of state into a 'natural' sub-process of the market. In this paper, we seek to demonstrate that the notion of governance is not only a veil that conceals the hegemonic interests of economically powerful circles who look forward to maintaining capitalism as a historical world system, but also a means of imposing irremovable restrictions upon reclaiming development. If we are right, then there are extremely forceful obstacles on the way to 'reclaiming development.' We reveal and examine those anti-developmental barriers by means of an institutionalist political economy approach, which we distil from a synthesis of *The Great Transformation* of Karl Polanyi, *Capitalism, Socialism and Democracy* of Joseph Schumpeter and *Civilization and Capitalism* of Fernand Braudel.

THE RELEVANCE OF MARX TO ALL STUDENTS OF ECONOMICS, NO MATTER THE LEVEL.

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Abstract.

The purpose of our paper is to challenge the validity/usefulness of teaching mainstream neo-classical/new-classical economics, by contending Marx provides a superior understanding of the essential nature of the capitalist system. We explain how Marx endogenously accounts for the inevitable cyclical behaviour of capitalism, its tendency to concentrate and the development of the financial system. In short, Marx can explain the tendencies we observe in our globalising world, whereas we contend mainstream analysis is hampered by prioritising an ideal simultaneous equilibrium and investigating how it might be exogenously disturbed. To explain Marx we must address the hermeneutic issue of which Marx! Simultaneous and dualistic interpretations of Marx question Marx's key conclusions, suggesting Marx's value theory is inconsistent. In contrast the Temporal Single System interpretation of Marx contends that all of Marx's key conclusions/results hold if we adopt a sequential and non-dualistic methodological approach; restoring Marx's central message.

(146 words).

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A Post Keynesian approach to structural credit rationing:

New Keynesian theories of credit rationing are based on the assumption of an exogenous money supply and usually explain credit rationing by adverse selection and moral hazard effects, that arise when applicants appear to be identical but can not be fully observed by a bank for some reason (amongst others Stiglitz and Weiss 1981; Jaffee and Russell 1976). Consequently they fail to explain how credit can be rationed because of specific characteristics of a group of applicants. Post Keynesians (Wolfson 1996) have tried to explain credit rationing under fundamental uncertainty by widening the New Keynesian asymmetric information assumption to asymmetric expectations and to clarify the often rather vaguely formulated "fringe of unsatisfied borrowers".

We argue that, while asymmetric expectations may be a reasonable but very general explanation for credit refusals, differences in the informational outsets of enterprises and banks can explain why certain groups of applicants may be structurally rationed. An investigation of the specific informational structures that arise under fundamental uncertainty in enterprises where there is a division of ownership and control, caused by their specific agency problem as well as by typical management aims, shows that "information" is produced which is compatible with or at least cheaply adjustable to the evaluation-apparatuses of banks' who generally face similar problems. Therefore the form in which an applicant is able to provide information can become an essential or at least risk-premium-reducing factor. In enterprises where the agency problem is not a strong argument, decisions are based more strongly on animal spirits or unconventional informational processes which finally can lead to a fail to produce bank-compatible information, when applying for credit. The proposed paper aims at developing a Post Keynesian theory that can explain restricted access to credit out of organisational aspects without offending the endogenous money supply assumption.

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January 27, 2005

Abstract
2005 AHE Conference (London, UK)

The Influence of Inflation on a Minskian Framework of Financial Instability:
Implications for Monetary Policy?

The influence of inflation on a Minskian framework of financial crisis is the focus of this paper. It begins by presenting an update of the framework presented at the 2003 AHE, discussing changes in method and new empirical applications. It then discusses the influence of inflation on the interpretation of an economy's shift through the Minskian regimes. This influence is exposed through (1) the decomposition of the real rate of return and (2) the decomposition of the framework into non-financial and financial sectors. The framework demonstrates that policymakers face a difficult choice if an economy is assessed as financially fragile. The stark choice faced by policymakers is either to permit a financial crisis, which would likely increase unemployment, or to inject liquidity into the system in order to abort a financial crisis, which would likely ignite inflation. Implications are then drawn for the monetary policy recommendations of the current consensus view in macroeconomics. An important result is that efforts to maintain the consensus, without recognizing that the economy is financially fragile, could trigger the onset of financial crisis. This result is discussed in the context of present U.S. economy.

JEL codes: E3, E5, F3, N1, O5, P1

Key words: Minsky, financial instability, monetary policy, inflation, new consensus

Philosophical Concepts of Truth in Economic Policy Advice

Schürz Martin

This paper tries to answer the question whether and how philosophical concepts of truth may play a role in justifying economic claims. It tries to trace implications of truth concepts for argumentation between economic policy advisors and economic policy-makers.

The first part surveys recent philosophical literature concerning the concept of truth with a particular focus on the pragmatist turn. We concentrate on divergent views within a coherence framework. In the second part the fairly abstract level of philosophical theories will be linked to the realm of economic policy advice.

By making the truth claims and the standards of justification explicit, economic policy-makers would gain more criteria for evaluation. If economic policy-makers and the public want to evaluate the economic policy advice given by economists, the quest for truth might be helpful in order to distinguish between the economic suggestions. Since what economists and economic policy-makers see is conditioned by how they see it, their understanding of truth deserves attention. Knowledge of the world views of economists and what role truth plays in their minds is of relevance for evaluating their policy suggestions as it is a decisive form of accountability.

First, making the concept of truth explicit might block *a priori* arguments against engaging in certain kinds of economic research. The quest to argue the concepts of truth in economics explicitly takes the argument for plurality of methods seriously. Second, the quest for the standards of truth claims might reveal patterns of domination and power behind enlightenment. Third, the difference between rational assertibility and truth in economic theory shows up in assertions that are not well-justified but relevant in economic policy. Also perspectives that are excluded from economic discourse, contributions that are suppressed, point to the difference between rational assertibility and truth.

In economic policy advice we cannot lose the regulative idea of truth, otherwise the practice of justifications of economic arguments would lose its point of orientation. The social norms of the scientific community of economists can be described from the perspective of a sociological observer or can be studied by rational choice approaches of the theory of science. However, this is not sufficient, because how would it be possible

to distinguish between conventional practices and justified means?
Without reference to truth, the justification standards would provide no
possibility of self-corrections.

ABSTRACT

For presentation at the Association for Heterodox Economics Conference, July, 2005,
City College, London

WHAT HAS NEOCLASSICAL ECONOMICS CONTRIBUTED TO UNDERSTANDING SOCIAL POWER?

by Eric Schutz, Rollins College, Winter Park, FL, USA 32792

This paper argues that the "core" of neoclassical economics -- its unique model of individual decision-making, that is, utility-maximizing choice subject to constraint -- constitutes a significant contribution to the broader social science of power. Let "constraint" be understood as broadly as possible, encompassing (i) the opportunity costs of all of the individual's potential activities, both market and non-market transactions, (ii) the amounts of both the individual's monetary and non-monetary resources, and (iii) the individual's informational environment and the associated opportunity costs of gathering and processing information. The power that one individual has over another then exists by virtue of the different sets of constraints, so understood, to which they are both subject (in an "archetypal" case, power derives from having a less restrictive set of constraints). Given a position of power over another, it is exercised by altering constraints effective upon the other's choices (e.g., changing the opportunity costs of certain actions) or by influencing the other's preferences themselves.

As heterodox economists have shown, such an "individualist" model of power is easily incorporated into the "structuralist" analyses of power used elsewhere in the social sciences. The social structures constituting power relationships in the latter analyses are essentially structures of "constraint" (broadly understood) on individuals' choices in the neoclassical economist's sense. This paper outlines a model of social class in terms of this "neoclassical-structuralist" juxtaposition, focusing on the corollary concepts of exploitation and economic inequality.

The model is constructed by beginning with the neoclassical theory of income and wealth inequality and successively qualifying it with a series of structuralist insights, making it progressively more realistic. Individuals are then seen as making financial and real capital and human capital (as well as social and cultural capital) investment decisions, but are also subject to all the constraints given by the larger social structure of power and their places in it -- essentially as in heterodox economists' descriptions of social power in modern capitalism.

What good is it to incorporate the neoclassical individual into what is obviously a "mostly" structuralist account of class-based social power? I argue that (1) no account of power can do without individuals making choices; (2) the neoclassical model of choice, while simplistic, is nonetheless helpful for clarifying where choice exists and where it does not; (3) an account of social class in which power relationships between individuals are significant is superior to one in which they are not, in that it potentially encompasses a broader set of social relations; and (4) highlighting individual choice clarifies the moral responsibilities of the people involved in power relations.

Title: Evolution of Banking Regulation and Supervision in Insider Financial Systems

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The paper aims to contribute critically to the discussion of international financial integration in Europe by evaluating the role of banks and /or supervisory boards in an historical context and analyzes the impacts of policies which imply shifts and changes in institutional settings. This paper contributes to pluralism in economics by merging historical, institutional and economic point of views in analyzing financial structure development in Europe.

Due to financial integration in Europe and the increasing role of harmonized policies, like the Basel II agreements, the question of how national financial systems with their distinctive institutional features will be shaped in the future deserves further attention. Economic research in this field concentrated on the quantitative measurement of capital flows and on methods to quantify institutional aspects of borrower-lender relationships under the heading of corporate governance. Corporate governance serves as a generic term for a bundle of institutional settings including measures of banking regulation and supervision. These have a major impact on the classification of national financial systems. It can be shown that the predominance of protective measures, like deposit insurance systems, in banking regulation over preventive ones leads to an insider or bank-based financial system. Consequently internationally coordinated supervisory systems can promote indirectly a change in national financial systems.

Basing on this theoretical research this paper analyzes the evolution of insider financial systems from a regulatory / supervisory point of view. Two research questions will be in the centre of discussion: First, did the banking regulatory frameworks of the three different subsystems of insider oriented financial systems converge over time and did they come closer to an outsider oriented or market-based financial system? Three countries will serve as references for the different subsystems: Austria represents the Austrian/German model of insider systems and France and Italy serve as representatives of their respective model. The second research question emerges out of the enlargement of the European Union: Which institutional setting do quantitatively as bank-based classified economies of the new member

states of the European Union show and are disparities in the institutional frameworks caused by differences in the transformation process? To answer this question Hungary and Poland are added to the countries of reference. They are the only transition economies of the new member states that can be fully regarded as bank-based financial systems using the dataset of the World Bank and followed different approaches in the transformation process.

Beyond standard rationality: Alternative criteria to understand the lack of reform of the Stability Pact

Eloïse Stéclebout*

Paper proposed for the 7th Annual Conference of the Association for Heterodox Economics
"Pluralism in Economics"
City University, London, 15-17 July 2005

Abstract

The problem with negotiations on the Stability and Growth Pact (SGP) is that it is necessary to have a rule that ensures financial stability in the euro area and a framework for fiscal policies, while the current rule is questioned both in theory and by the behaviour of several member states. In this context, how come national governments and the Commission seem to have such trouble gathering a consensus on a reform of the SGP?

The approach developed in this paper is not normative – the question is neither what the ideal rule should be nor whether the proposed reforms could overcome the problems raised by the current rule – but positive: it seeks to understand what characteristics of European negotiations lead to gridlock over a reform that is yet doubtless needed.

Original analytic tools are used to answer this specific question.

First, the analysis of discourse reveals each national government's recent stance: has it been generally in favour of a strict implementation of the SGP or would it prefer to make it more flexible?

Second, this paper focuses on specific reform proposals and evaluates which ones are likely to be implemented, using an inductive method with various criteria: a criterion derived from standard rationality, but also alternative hypotheses based on experimental game theory and experimental psychological Economics. The resulting simulated decisions are compared to the observed (non-) decision: the absence of a thorough reform.

Thus, the governments' implicit choice criteria are revealed indirectly. Various criteria are relevant, according to the type of reform and question considered.

When a reform increases the margin of manoeuvre for fiscal policy in some countries but reduces that of other countries, the standard criterion of instantaneous absolute payoff is sufficient to explain the absence of consensus: the countries that are worse off refuse the reform.

However, the relative payoff criterion seems more relevant for the reforms that enlarge the margins of manoeuvre for all countries: in order to accept a reform, a government then demands not only to be better off, but also to get a high enough payoff compared to other governments.

The third criterion, based on the psychological Economics concept of endowment effect, is forward-looking: in the medium run, is the government certain to be always better off with the reform than under the status quo, always worse off, or is the impact unclear?

The fourth criterion is backward-looking. A country that has already had an excessive deficit can hardly quote Rawls' ignorance criterion to propose an accommodating reform: the more disciplined countries would refuse such an opportunistic self-interested proposal.

Beyond these criteria, Tsebelis's nested games help understand that the negotiations on the SGP are located in a wider context. A strategy that could seem non-optimal in the isolated SGP game can actually be part of an optimal strategy in a larger game, in which the SGP game is only a sub-game.

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Is the NAIRU theory a neoclassical, a New Keynesian, a Post Keynesian or a Marxist theory?

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abstract

The NAIRU theory has become the dominant theory for explaining unemployment in Europe. More to the point, it has become the favorite theory of institutions like the IMF, the OECD and others who use it to justify demands for a cutback of the welfare state, reducing unemployment benefits, reducing minimum wages, decentralizing collective bargaining etc. In other words the NAIRU story has been used to justify policy recommendations that are identical to those derived from neoclassical theory (IMF 2003, OECD 1994). Consequently the NAIRU theory has been rejected by some Post Keynesians as neoclassical theory in new clothes (e.g. Davidson 1998). The proposed paper will argue that this underestimates the theoretical innovations of the NAIRU theory (compared to standard neoclassical theory) and the extent to which it uses concepts similar to Post Keynesian or even Marxist theory.

We distinguish between the NAIRU Theory and the NAIRU Story, the latter being a narrow (if politically dominant) interpretation of the former. The NAIRU Story posits that the NAIRU is determined exogenously by wage push factors (that is unemployment benefits etc.) and actual unemployment is determined by the NAIRU (Stockhammer 2004). The NAIRU theory encompasses a much broader class of models, where wage bargaining occurs (which is not the case in standard neoclassical theory), unemployment exercises a disciplinary pressure on workers' wage demands and inflation is an outcome distributional conflict. Thus there are remarkable similarities to Post Keynesian theories of conflict inflation that has been endorsed by Post Keynesians (Lavoie 1992, Palley 1994) as well as Marxists (Rowthorn 1979). The proposed paper aims at clarifying the non-neoclassical mechanisms that exist in the NAIRU model.

The British Labour Party and Finance Capital: New Labour Old Finance

Geoff Tily
University College London
February 2004

Abstract

This paper will examine the British Labour Party's changing relationship with 'finance capital'.

As the Party emerged at the turn of the century, scholars and socialist activists were increasingly blaming the ills of society on finance capital. Hobson's (1904) *Imperialism* inspired Lenin's (1916) *Imperialism: the Highest Stage of Capitalism*: "Thus, the twentieth century marks the turning point from the old capitalism to the new, from the domination of capital in general to the domination of finance capital". But under Ramsey MacDonald, in line with the favoured policy of finance capital, the British Labour Party set in motion the disastrous return to the gold standard in the 1920s. After what some have charged as the betrayal of the National Government, the Labour Party sought to re-build itself. Under Hugh Dalton's management, the party repositioned itself against finance capital.

Blame for unemployment lies much more with finance than with industry. Mass unemployment is never the fault of the workers; often it is not the fault of the employers. All widespread trade depressions in modern times have financial causes; successive inflation and deflation obstinate adherence to the gold standard, reckless speculation, and over-investment in particular industries. ...

This view is now widely accepted outside the ranks of the Labour Party, by most economists, by many Government officials, by many business men, even by some bankers. ...

Finance must be the servant, and the intelligent servant, of the community and productive industry; not their stupid master.¹

With the 1945 election won, the central practical manifestation of the subjugation of Finance Capital to Labour was the cheap money policy. Long rates were deliberately managed at low levels and active manipulation of Bank rate was ruled out as an instrument of economic policy management. Industrial Capital and Government alike were then in a position to borrow at low rates; thus facilitating investment and growth. But Dalton and his successors as Chancellor (Stafford Cripps and Hugh Gaitskell) found themselves having to defend their policy against not only the Bank of England, the city and academia, but also a current of opinion within his own party. With the victory of the Conservative Party in the general election of 1951, the

¹ National Executive Committee of the Labour Party (June 1944), *Full Employment and Financial Policy*.

opposition to his policy was victorious: the cheap money policy was terminated. But the importance of monetary policy initiatives also began to be undermined in the Labour Party itself. When the Labour Party were finally returned to government in 1964 and 1974, they preserved conservative monetary policies rather than returning to Dalton's policies. Finally, matters turned full circle with the present 'New' Labour Government returning monetary policy to the Bank of England. With the dichotomy 'new' and 'old' labour concerned with attitudes to nationalisation, the 'market' and state spending, any notion that the party ever stood against finance capital has been lost. The great economic and social successes when the party was so positioned are essentially ignored.

Hegemony of Financial Capital and a Contact with Working Class

Since the first wave of economic liberalization in Turkey in 1980, the country has witnessed three important financial crises, each reflecting the sustainability, and also legitimacy problems of the capital accumulation. In the context, we acclaim that it was only financial capital (FC) that was able to insist on its own project; that it has succeeded to maintain its hegemony since late 1980's. FC has gained power to construct its hegemony through its capacity to intermediate the public debt. The 'financial crisis of the state' in means of legitimacy and accumulation was avoided via production and reproduction of state's unofficial dependency to this financing regime. A similar mechanism has been regenerated at the end of 1990's between FC and the working class. FC became a financier of "living struggle" of the working class through credit relations. Notwithstanding, it was also the means of a long term mechanism of "dependency and exploitation" which also involves the consent of the dependant. We suggest that the construction of consent concerns with the shifts of perceptions and the behaviours of the working class. In this study, we aim to explore those everyday life features (credit relations, credit card usage, etc.) of such an expansive hegemony à la Gramsci for the Turkish case.

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HOMO ECONOMICUS MEETS G.H. MEAD: A CONTRIBUTION TO THE CRITIQUE OF ECONOMIC THEORY

David Wilson and William Dixon, London Metropolitan University.

What is it that makes the human act distinctive? For the economist it is our capacity to deliberate. 'A spider', Marx writes, 'conducts operations that resemble those of a weaver, and a bee puts to shame many an architect in the construction of her cells. But what distinguishes the worst architect from the best of bees is this, that the architect raises his structure in imagination before he erects it in reality' (Marx, 1974, p.174). It is this that makes his act 'exclusively human' (*ibid.*)

It seems to follow that if the human act is distinctive, then so too is human sociality; for if we *operate* distinctively, then surely we must *co-operate* distinctively also. Further, it is tempting to assume that our operations and our co-operations are distinctive for the same reason: that they are both the product of deliberation, of a single mind in the first case and of several in the second. On this view, human co-operation is a special case of human operation: the co-operative act, insofar as it is 'exclusively human', requires of the co-operator no more or less than the exercise of the same powers of reason at work in the prosecution of the individual act, but now ranging over a (much) more complicated terrain.

It is arguably just this assumption that underpins neoclassical economic theory and would explain its obsessive concern with individual rationality. For if human co-operation is seen as a more complex form of instrumentally rational operation, then our (effective) sociality – our ability to co-operate successfully – must consist in our ability to build the other and its plans into our own calculations. Yet, as we will want to explain, this is tantamount to making human cooperation a necessarily strategic affair. It also leads to a familiar dualism in which an irreducible egoistic self-interest and the institutions that are supposed to arise therefrom meet wider ethical concerns but without any convincing story as to how these two facets of human being are supposed to join up.

We use the term critique in our title advisedly. We do not want to deny the fact that people can and do act strategically towards one another. But according to our lights the strategic meeting of minds presupposed in neoclassical theory itself presupposes that they first meet in some other way. And that other way to which we allude here in turn requires a conception of human being and acting that is irreducibly social in the sense of G.H. Mead. By irreducibly social we do not mean that one cannot help but enjoy the company of others; or that one cannot help but sometimes act with the interests of others in mind. Rather we will want to explore the possibility, *a la* Mead, that the characteristically human form of acting presupposes a pre-reflective anticipation of the responses of others, whether or not one *plans* to take such responses into account. On this view *homo economicus* is a particular manifestation of human being, not its irreducible core, and its ostensibly strategic approach to co-operation is itself parasitic on a more general human competence for co-ordinating the act.

Paul Young (Exeter University)

Martineau's Man: Fleshing out *Homo Economicus*.

Marx noted in 1867 that "moderate though he is," Robinson Crusoe's experiences provided political economists with a "favourite theme." This comment draws attention to the fact that whilst an authoritative and compelling account of socio-economic life grew up around *Homo Economicus*, the figure itself was abstracted and reductive; as Marx recognised, it was a profoundly limited interpretation of human needs, desires, and motivations.

This paper will discuss the link between the conceptualisation of *Homo Economicus* as a "moderate" fellow – "moderate" in the dual sense of being middling or average, and exhibiting temperance and restraint – and the nineteenth-century acclaim for the universal scope of political economy. Having done so, it will turn to Harriet Martineau's "Life in the Wilds," the first in an extensive series of fictitious narratives which Martineau published between 1832 and 1834 in order to popularise political economical science. This part of the paper has two thematic concerns. First, to examine the plots, strategies and tropes which Martineau employs in her positive fictionalising of economic rationale. Second, to highlight instances, devices and themes in "Life in the Wilds" where the logic of *Homo Economicus* is threatened and exposed as inadequate. The aim is to demonstrate the complexity of Martineau's representation of political economy and to draw attention to the problems inherent to the rhetoric of political economy itself.

"Late Marx and Luxemburg: Opening a Development within Political Economy"
by Paul Zarembka, State University of New York at Buffalo

Abstract

In 1858, Marx already commented that 'value' presupposes "the destruction of all undeveloped, pre-bourgeois modes of production" and this presumption is reflected in the assumption in *Capital* of a fully capitalist mode of production. A fully capitalist mode of production, however, did not then obtain, nor does it now. Furthermore, should it obtain, it would undermine 'accumulation of capital' as it needs to be understood as a concept within Marxism: that concept must include continuing penetration of non-capitalist modes and is at the heart of Luxemburg's legacy in political economy.

The difficulties surrounding the concept of accumulation of capital may suggest a reason for Marx's own deletion of "Results of the Immediate Process of Production" from his next-to-final draft of *Capital, Volume I*, and may help understand the direction of his research after the publication of *Volume 1*. On the other hand, others, later, wishing to avoid those difficulties as well as having possible political motives, raised many objections to Luxemburg's *Accumulation of Capital*, objections which have come from many sides of left analysis.

Reconsidering Marxist political economy with accumulation of capital understood to include penetration of non-capitalist societies involves reconsideration of the concept of 'value'. Indeed, Marx specifically argued that all theoretical categories are socially conditioned. Focusing on the surplus school of the likes of Baran and Sweezy rather than upon Luxemburg, John Weeks has argued that 'value' is itself inconsistent with a chronic problem of realization. His argument, nevertheless, remains incomplete and thus cannot be accepted. This paper therefore concludes by exploring directions for addressing the difficulties surrounding value and accumulation of capital as concepts, both of which are fundamental for Marxist theory.