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In this issue:

Pleas for Pluralism

Esther-Mirjam Sent (University of Notre Dame, US, and Netherlands Institute for Advanced Study in the Humanities and Social Sciences (NIAS**))**

Pleas

The first stage of the movement that led to the establishment the Post-Autistic Economics Network involved a group of economics students in France publishing a petition in June 2000 under the banner "autisme-économie."[1] Their plea was supported by an appeal from some economics teachers in France. The second stage was launched in September 2000 by the appearance of the first issue of the email newsletter you find in your inbox. By its second issue, the Post-Autistic Economics Newsletter had subscribers from 36 countries, and it currently has over 5000 subscribers from over 100 countries. In November of 2000 http://www.paecon.net went in the air, ushering in further international interest. In 2001, 27 economics Ph.D. students at Cambridge University in England who have come to be known as the "Cambridge 27" issued a petition entitled "Opening Up Economics." The third stage is where we are now and at which this contribution carefully considers pleas for pluralism that have featured prominently during the previous two stages, as well as before the establishment of the Post-Autistic Economics Network. As Wade Hands (1997b, 194) observes: "The plea for pluralism in economics has been a frequent refrain throughout the history of modern economic thought. This refrain has usually been voiced by those who were outside, or critical of, the mainstream in modern economics."

Eight years before the first stage mentioned in the previous paragraph, in 1992, a group of economists issued a "Plea for a Pluralistic and Rigorous Economics" in an advertisement in the *American Economic Review*, calling for "a new spirit of pluralism in economics, involving critical conversation and tolerant communication between different approaches. Such pluralism should not undermine the standards of rigor; an economics that requires itself to face all the arguments will be a more, not a less, rigorous science."[2] The announcement had been organized by Geoffrey Hodgson, Uskali Mäki, and D. McCloskey, and signed by forty-four illustrious names amongst which were Nobel laureates Franco Modigliani, Paul Samuelson, Herbert Simon, and Jan Tinbergen.

In 1993, the International Confederation of Associations for Pluralism in Economics (ICAPE) was founded as a "consortium of over 30 groups in economics" that "seeks to foster intellectual pluralism and a sense of collective purpose and strength."[3] Its 1997 resource list contained 30 professional associations, 32 academic and policy journals, 11 publishers, 16 departments, 16 centers, and 9 special projects, not all of which were formally affiliated with ICAPE. The consortium's statement of purpose suggests: "There is a need for greater diversity in theory and method in economic science. A new spirit of pluralism will foster a more critical and constructive conversation among practitioners of different approaches. Such pluralism will strengthen standards of scientific inquiry in the crucible of competitive exchange." ICAPE's first conference on "The Future of Heterodox Economics" will be held during the Summer of 2003.

The "autisme-économie" petition mentioned before, published in 2000, favored a pluralism of approaches in economics.[4] The French students wrote: "We want a pluralism of approaches, adapted to the complexity of the objects and to the uncertainty surrounding most of the big questions in economics…." The petition of the economics teachers in France also stressed the need for pluralism, focusing mostly on theories.[5] They concluded: "Pluralism must be part of the basic culture of the economist. People in their research should be free to develop the type and direction of thinking to which their convictions and field of interest lead them. In a rapidly evolving and evermore complex world, it is impossible to avoid and dangerous to discourage alternative representations."

The proposal for reforming economics entitled "Opening Up Economics" issued by the "Cambridge 27" in 2001, ends as follows: "We are not arguing against mainstream methods, but believe in a pluralism of methods and approaches justified by debate. Pluralism as a default implies that alternative economic work is not simply tolerated, but that the material and social conditions for its flourishing are met, to the same extent as is currently the case for mainstream economics. That is what we mean when we refer to an 'opening up' of economics."[6]

Implicit in all these appeals is the observation that economics lacks pluralism. The pleas are defended by means of an assortment of arguments, such as discussions of the complexity of the economy, evaluations of the restrictions inherent in modeling, and assessments of the cognitive limitations on the part of economists. The advertisement in the *American Economic Review* also employs a reflexive strategy: "Economists today enforce a monopoly of method or core assumptions, often defended on no better ground than it constitutes the 'mainstream'. Economists will advocate free competition, but will not practice it in the marketplace of ideas."[7] The remainder of this contribution highlights some problems with the pleas for pluralism, in an effort to open up ways for strengthening them further.

Pluralism?

Since pluralism itself is a reflexive doctrine — there can be more than one kind of pluralism — problems occur in using pluralism as an organizing principle. First, the nature of pluralism in the various pleas differs. A distinction needs to be made among theories, methods, methodologies, approaches, perspectives, models, explanations, and so on (see, e.g., Salanti and Screpanti 1997). Whereas the French students stress approaches, their teachers focus more on theories, and the British students emphasize methods and approaches. Somewhat troublingly, ICAPE's statement of purpose appears to confuse methods and methodologies, for instance when it notes: "One conspicuous consequence of the homogenization of economics has been a loss of methodological pluralism." Now, pluralism about methodologies involves adopting a pluralistic position towards one's own understanding of the multifaceted enterprise of economics, borrowing from a wide variety of "shelves," including history, literary criticism, philosophy, and sociology (see, e.g., Hands 2001). This is not what ICAPE's reference to methodological pluralism intends to address. Instead, it is concerned with pluralism about methods, which involves types of models, reasoning, and so on upon which economics relies (see, e.g., Dow 1997, 2002).

Second, the source of pluralism varies. It could be ontological, epistemological, pragmatic, historical, sociological, heuristical, political, and so on (see, e.g., Salanti and Screpanti 1997). Whereas the French students focus on complexity and uncertainty, their teachers emphasize a wide range of contextual matters, and the British students are not explicit about the source of pluralism. Let us take a closer look at the mechanisms outlined by the teachers: "Pluralism is not just a matter of ideology, that is of different prejudices or visions to which one is committed to expressing. Instead the existence of different theories is also explained by the nature of the assumed hypotheses, by the questions asked, by the choice of a temporal spectrum, by the boundaries of problems studied, and, not least, by the institutional and historical context." The argument that theories vary across different scientific contexts (domains, times, interests, et cetera) raises the question whether for every phenomenon, question, and so on there would be a single, best account. If so, then this view seems to reduce to monism, which foreshadows the arguments of the subsequent sections. Before moving there, we will make one more observation concerning pluralism.

Third, not much thought seems to have been given as to the classification of pluralism. The various objects of pluralism could be translatable or not and might be compatible or not. Reflexivity concerns should keep one from casting the classification in terms of complements and substitutes (see, e.g., Mäki 1999). The French students, their teachers, and the British students all seem to view heterodox and neoclassical economics as neither translatable nor compatible. This, again, introduces the possibility of a reduction to monism, as elaborated in the following sections.

Monism!

Most importantly, despite these apparent appeals to pluralism, upon closer scrutiny, the pleas seem to be inspired my monism about theories. This motivation is evidenced, for example by the observation that the first conference of the International Confederation of Associations for Pluralism in Economics (ICAPE) is on the future of heterodox economics, while orthodox economics is considered to be "vapid, exclusionist, and detached from its social and political milieu." The French students write about neoclassical economics: "We no longer want to have this autistic science imposed on us." And their teachers concur: "Neoclassicalism's fiction of a 'rational' representative agent, its reliance on the notion of equilibrium, and its insistence that prices constitute the main (if not unique) determinant of market behavior are at odds with our own beliefs."

Using a label introduced by Ronald Giere (forthcoming), the appeals to pluralism on the part of heterodox economics may be seen as an instance of strategic pluralism. Though advocacy of pluralism by the French students, their teachers, and the British students may be couched in metaphysical or epistemological terms, could be primarily inspired by efforts to achieve professional power and dominance. John Davis (1997, 209; original emphasis), therefore, concludes that the motivation of heterodox economists "is not that their own theoretical approaches are *also* correct — a theoretical pluralist view — but rather than neoclassical economics is mistaken and misguided in its most basic assumptions, and that their own approaches remedy the deficiencies of neoclassicism — a theoretical monist view."

Also against the spirit of pluralism, heterodox economists appear to be offering a rather monist reading of the mainstream. The French students "oppose the uncontrolled use of mathematics," their teachers "denounce the naïve and abusive conflation that is often made between scientificity and the use of mathematics," and the British students dispute the "commitment to formal modes of reasoning that must be employed for research to be considered valid." Which mathematical formalism do they oppose (see, e.g., Hands and Mirowski 1998; Mirowski and Hands 1998)? Is it that of the University of Chicago Economics Department (in particular Milton Friedman and George Stigler), of the Cowles Commission at the University of Chicago (especially Kenneth Arrow and Gerard Debreu), or of the Massachusetts Institute of Technology (most notably Paul Samuelson)? Or is it the mathematical formalism of the game theoretic approach of John von Neumann and Oskar Morgenstern, or of John Nash? And how about efforts to incorporate bounded rationality approaches, behavioral insights, chaos theory, complexity approaches, and experimental methods? As Sheila Dow (2002, 7) suggests: "[M]ainstream economics gives the appearance of a moderate form of pluralism." By monistically equating orthodox economics with mathematical formalism, therefore, heterodox economists ignore the fragmentation of the mainstream and manoeuvre themselves in a vulnerable position.

Concluding Comments

If heterodox economists are serious about their advocacy of pluralism, as we hope they are, they need to carefully consider the nature, source, and classification of pluralism.[8] And they need to confront the charge that pluralism inevitably leads to an "anything goes" view. They also need to beware of sliding into monism. For instance, an ontological perspective that stresses the patchiness of the world runs the risk of being reduced to monism because it might be consistent with the idea that for every phenomenon there is a single, best account. An epistemological view that involves the hedging of bets may reduce to monism if the long-term goal is a single comprehensive account. An epistemological view that relies on the cognitive limitations of economists may reduce to monism if the limitations are merely delaying the development of a single, complete, and correct theory. If heterodox economists desire pluralism, they need to honor its spirit when offering interpretations of the mainstream. If heterodox economists employ appeals to pluralism strategically in an effort to achieve monism, they leave themselves vulnerable to criticism. Finally, they need to ensure, as stressed by the British students, that the material and social conditions for the flourishing of pluralism are met.

Notes

1. A brief history of the Post-Autistic Economics Network is available at http://www.paecon.net/.
2. The advertisement appeared in *American Economic Review* 82 (2): xxv.
3. Information on ICAPE can be found at http://www.econ.tcu.edu/econ/icare/main.html.
4. The text of the French students' petition is available at http://www.btinternet.com/~pae_news/texts/a-e-petition.htm.
5. The text of the professors' petition circulated in France can be found at http://www.btinternet.com/~pae_news/texts/Fr-t-petition.htm.
6. The open letter of the 27 Ph.D. students at Cambridge University may be accessed at http://www.btinternet.com/~pae_news/Camproposal.htm.
7. One of the organizers of the plea, Uskali Mäki (1999), clarifies that some economists who are supporters of free market (object-)economics refused to sign, whereas some economists who are less enthusiastic about free market (object-)economics did sign. He conjectures that "when economists talk about the 'free market' of ideas, they do

not use the expression in the sense in which it appears in their theories of the goods market" (504). This enables consistency, but eliminates full self-referentiality.

8. Some of these observations draw on a very insightful list of questions about scientific pluralism that was drawn up by Stephen Kellert, Helen Longino, and Kenneth Waters in preparation for a workshop on scientific pluralism. The list is available at http://www.mcps.umn.edu/pluralism/outstanding_questions.html.

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Esther-Mirjam Sent is the author of *The Evolving Rationality of Rational Expectations* (Cambridge: Cambridge University Press, 1998) and the editor (with Philip Mirowski) of *Science Bought and Sold* (Chicago: University of Chicago Press, 2002). She may be contacted at sent.2@nd.edu.

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Concern with Policy-Relevance in the Latin American School of Economics

Ana Maria Bianchi (Universidade de Sao Paulo, Brazil)

As I understand it, one of the main goals of the post-autistic movement is to stimulate the economics profession to transcend autism and communicate with the rest of the world, non-economists included. One of the ways of attaining this goal is to look back at the history of economic ideas, which is full of interesting episodes that can help us to understand what happened in the past and what is going on today. Historical reconstruction may attract our attention to some currents of thoughts which developed outside the mainstream of the profession and were never made part of the academic textbooks, although they brought up significant new perspectives on the functioning of the economic systems.

In this connection, it is worth recalling the episode that concerns the building of the Latin American School of Economics in midst 20th century. This school of thought originated in the United Nations Economic Commission for Latin America and Caribe (ECLAC), founded in 1948. Its best known leader is the Argentinean economist Raul Prebisch. After holding important executive positions in the Central Bank of his country, Prebisch taught economics at the University of Buenos Aires and soon after joined the ECLAC staff, where he stayed for 15 years. His conception of the growth processes in Latin America was developed in several essays published by the ECLAC[1] and became the basis of what is now known as the Latin American school. Under the leadership of Prebisch, the institution became a think tank for a whole generation of heterodox economists and social scientists in general, the so-called *cepalinos*, whose ideas provided theoretical justification for the economic development of Latin America countries during the second half of the twentieth century.

The main thesis advocated by the Latin American School was that the "peripheral" countries, which specialized in exporting raw materials and primary products in general to the "central" industrialized countries, suffered from a long-term decline in their terms of trade. The benefits of external trade were unequally shared by these two groups of countries, the producers of manufactures, on the one hand, and the producers of raw materials and primary goods, on the other. Due to this asymmetrical relationship in their foreign trade peripheral countries faced a vicious circle of low productivity and low rate of savings. Regarding the central countries, market imperfections such as rigidity of wages and monopolistic conditions were such that the gains in productivity derived from technological improvements did not result in decreasing prices for industrial goods exported to Latin America and peripheral countries in general. The balance of payments deficits were detrimental to Latin American´s economic growth, as receipts deriving from exportations did not create the import capacity needed to provide the region with the capital goods that it required to develop its industrial sector.

In order to overcome this situation, Latin American countries should protect their foreign trade and concentrate on the production of an array of formerly imported manufactured goods. Import substitution was a necessary condition for peripheral growth, in association with structural reforms in the economy. The focus should be placed on the strengthening of the domestic market, which was seen as the crucial element of an inward-looking model of development. Exportations were still necessary because they would guarantee the foreign exchange needed for importing capital goods, but the hallmark of the *cepalinos*´s conception was the focus on the domestic market. Within Latin America, economic integration between countries would allow them to take advantage of economies of scale, in the sense of providing larger markets and favouring the dissemination of modern technologies.

These were, in a nutshell, the main theses defended by the *cepalinos*, who worked hard to gather statistical data about Latin America countries and their patterns of foreign trade. It its important to notice that this was not a widespread procedure in the 1940s and 1950s. On the contrary, in many economic texts, mostly those meant for a lay audience, there was no systematic concern with the role of statistical evidence in economic analysis. The *cepalinos* prompted a break from the prevalent discursive style. Concern with the empirical support of economic theses was present in the very spirit that presided over the conception of the ECLAC. The entity´s staff was put in charge of assembling statistical data about Latin America, in order to compensate for the chronic deficiency, and they did the best they could do in this area.

Another important point about the *cepalinos* is the fact that they were severe critics of the conventional theory of international trade, both in its Ricardian and neoclassical versions. In a late interview, Prebisch (1987) stated that, although he was raised in the neoclassical tradition, the Great Depression forced him to review his ideas. Already in his writings as a member of the ECLAC staff, he argued that the main mistake of neoclassical economics was to attribute a general character to something that was geographically circumscribed. From the viewpoint of the periphery, conventional economics suffered from a "false sense of universality", as its general laws did not apply to the world economy as a whole. The international division of labor which this theory pictured as a "natural" outcome of the world system of trade was of much greater benefit to central than to peripheral countries. A new investigative effort was thus necessary for a correct interpretation of Latin American problems, one that would bear in mind the need to tailor the neoclassical theory to the specific conditions of peripheral economies. This did not mean, however, that the new generations of Latin American economists had to start all over again, building a completely different economic theory. On the contrary, they had to learn neoclassical economics before being able to make the necessary adaptations[2]

Prebisch and the *cepalinos* were influenced by the German Historical School, especially its forerunner Friedrich List, from whom they borrowed the “infant industry” argument. According to this argument, a potential manufacturer in a developing country, faced with an initial period of high costs, should be put under State protection. Temporary intervention would make entry into the new industry profitable provided that, on the longer term, its production costs would decline below the imported cost. This argument was combined with an appeal for import-substitution industrialization as the only way out of poverty and underdevelopment. Although not an end in itself, industrialization was the principal mechanism at the disposal of peripheral countries to obtain a share of the productivity gains achieved through technological progress. In this scenario a major role was attributed to the state, which should provide protection for the newborn domestic industries.

The *cepalinos* also placed great emphasis on economic programming and planning techniques. The development process should follow an orderly strategy, and it could not be conceived as the spontaneous process which characterized it during the nineteenth century.

On the empirical counterpart of this ideological and institutional movement, the *cepalinos* succeeded in mobilizing the energies necessary to give a new impulse to the state-led industrialization process. Industrialization through import substitution had begun earlier in countries such as Brazil, Argentina and Chile, but it gained a new momentum with the diffusion of structuralist ideas and policies. Burger (1999) claims that with the ECLAC industrial policies came to represent a logical continuation of this early process, systematized into a more coherent body of ideas.

All in all, this industrialization model worked in Latin America, if by “working” we mean driving the per capita output for a quite extensive period of time. During the three decades that followed World War II, Latin America saw a continuous growth of its industrial product, its gross domestic product, and its per capita income. Between 1950 and 1978, Latin America´s gross domestic product grew at an annual rate of 5,5%, a rhythm that far exceeded the world average. The Latin American industrial product was multiplied by six in the same time period, growing at rates far superior to the population growth, which grew 2,8% a year. The continent as a whole exhibited a persistent growth of its GNP per capita of about 2,6% a year.

Yet the import-substitution industrialization model had shortcomings and the *cepalinos* quickly came to acknowledge this fact. In a book published in 1971, called *Change and Development*, Prebisch pointed out to the limitations of this model as it had actually evolved. Latin American economies, he claimed, could no longer continue to rely on import substitution alone. Rather than concentrating on the production of basic goods for general consumption, the newly created industries had tended to concentrate on the production of consumption goods that benefited a small portion of the urban consumers. The industrialization model adopted by the Latin America countries produced growth but failed to produce equity, as it was unable to absorb the excess labor force, marginalizing large masses of people from its benefits.

In this sense, the import-substitution model adopted by Latin America after World War II was inefficient in achieving a significant reduction of poverty and income concentration in the continent. Latin America became less poor in the second half of the 20th century, and this is something to be praised, but its indices of inequality, which were already comparatively high in 1950, remained so throughout the 1950-1980 period. The costs of this process included high inflation levels – a further object of concern of Prebisch and the *cepalinos* -, which accelerated at an unprecedented rate near the end of the century. These costs also included a growing foreign debt and a bloated, inefficient, and corrupt public sector. The integration of the continent itself, a dream nurtured by ECLAC from its very beginnings, moved at the speed of a turtle.

From the academic point of view, the Latin American School of Economics did not acquire many followers outside the continent. There are very few mentions of it in the international literature of the history of economic thought, macroeconomics and growth economics. One exception is found in Thirlwall and McCombie (1994, pp.256-7), who refer to the importance of Prebisch in the construction of center-periphery models of growth and development. (The authors build an equation which would be later adopted in post-Keynesian growth models.)

Be that as it may, the most important feature of the Latin American School is the fact that its authors were thoroughly concerned with the practical relevance of their writings. This is not a prerogative of this school, as we learn from Milberg (1996), who claims that in the field of international economics researchers have been persistently concerned about policy-relevance. Nevertheless, this is something to be praised, in times when ultra-formalism tends to dominate a significant part of the academic scene. Influenced as they were by the German Historical School, the *cepalinos* fully recognized the prescriptive nature of economics. Their writings show an explicit commitment to values such as economic development, social welfare and equity. The *cepalinos* wanted to learn the relevant theory and to assemble the relevant statistics, but they also wanted to tell something important and true about their Latin American world. In this sense, they mobilized some broad-based economic expertise in order to propose economic and social changes, thus bridging the gap between what they learned in the textbooks and the world out-there.

Notes

1. Among these writings two were specially path-breaking: the essay called “The economic development of Latin America and its principal problems”, presented for the first time in June 1949, during the ECLAC general assembly held in Havana, Cuba; and the introductory part of the *Economic Survey of Latin America 1949*, presented during the ECLAC general assembly held in Montevideo, Uruguay, in May 1950.
2. This is what Hodgson (2001) would call the neglected problem of historical specificity, which he considers to be a problem of vital significance for the social sciences, fully recognized by all the leading members of the German Historical School. It addresses the limits of explanatory unification in the social sciences, in the sense that they must build theories that are sensitive to historical and geographical variations. In the author´s own words:

> “... differences between different systems could be so important that the theories and concepts used to analyse them must also be substantially different, even if they share some common precepts. A fundamentally different reality may require a different theory. This, in rough outline, is the problem of historical specificity.” (Hodgson 2001, p. xiii)

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Common Ground Critiques of Neoclassical Principle Texts

Steve Cohn (Knox College, USA)

Like many heterodox economists I am pleased and excited by the growth of the PAE network. I'd like to share some thoughts about a project I have been working on that overlaps many initiatives and ideas that have been discussed in the PAE Review.
The project is a "critical commentary" on standard neoclassical principles texts. It provides a "chapter by chapter" critique of introductory texts that could be assigned alongside a standard text by instructors or read independently by interested students in an orthodox course. The design of the project is similar to Marc Linder's efforts in *Anti-Samuelson* (1977), but adds other heterodox voices to Linder's primarily Marxist perspective. In these comments I will concentrate on the macroeconomic side of principles courses.

The “critical commentary” project is based on four major assumptions.

Assumption 1: Need for Critique

In the mid 1990s about 1.4 million students took principles classes in the United States. All 20 best selling introductory macroeconomics textbooks in the U.S. are basically neoclassical texts.[1] It is unlikely that even 1% of the students use a non-neoclassical principles text.

To make matters worse, for several decades the neoclassicists have been increasing their control over economic education at the pre-college level. There has been a major effort to craft and then impose on high school (and even pre-high school) economics courses "voluntary content standards" that reflect neoclassical ideas. This has been accompanied by the creation of review mechanisms, such as the Test of Economic Literacy (TEL), that assess economic knowledge in terms of students' acceptance of neoclassical theory.

When economists objected to the narrowness of the "voluntary" content standards, two important members of the drafting committee were quite explicit about their attempt to censor other viewpoints. They indicated,

> "The final standards reflect the view of a large majority of economists today in favor of a 'neoclassical model' of economic behavior….The task was to produce a single coherent set of standards to guide the teaching of economics in America's schools. Including strongly held minority views of economic processes risks undermining the

entire venture."[2]

Assumption 2: Generic Target

There is a template, a standard neoclassical treatment of most topics covered in principles courses, which can serve as the target for a heterodox or pluralist commentary. Space limitations preclude defending this claim here, but it is hardly controversial. Colander's observation that principles texts can not diverge more than 15% from standard fare characterizes the market's homogenization fairly well.

Assumption 3: Common Ground Critique

While the neoclassicists have been very good at homogenizing instruction within their ranks so as to speak with one voice when it counts, those of us with non-neoclassical positions have been less inclined to follow this strategy. And for good reason. Part of our success is based on the hard won development of specialized languages (such as Marxist theory) that are able to resist being co-opted by neoclassical discourse. I think many advances for heterodox theory will come by preserving these separate languages and integrating their insights. Nevertheless, while I think it is important for the individual paradigms to continue to flourish as separate schools of thought, I am convinced it is possible to find broad common ground across a wide range of critiques of neoclassical principles texts, including work by many Marxist, radical, institutionalist, feminist, Post Keynesian, socio-economic, humanistic, and ecological economists. To use a biological metaphor, the issue is whether heterodox paradigms can be thought of as members of one species or separate species. I believe there are enough shared ideas among paradigms to inter-breed and support shared assaults on neoclassical texts.

Assumption 4: Appropriate Pedagogy

An effective critique of standard texts requires a sustained voice. One of the rhetorical strengths of principles books is the repetition of the same kind of analysis across many different topics. Our critiques must offer a competing "habit of mind." Besides challenging the formal arguments of neoclassical economics, heterodox critiques must also challenge the *"stories"* in neoclassical principles texts and offer alternative stories, metaphors, and *patterns of analogies* to convey heterodox ideas.[3]

The Significance of Common Ground

Since establishing our common ground may be key to expanding the influence of pluralist economics, I will concentrate on elaborating Assumption 3 in this article. Besides offering opportunities for intellectual cross pollination, securing common ground might increase the clout of pluralism within the economics profession. Why not, for example, band together to demand that the College Board's Advanced Placement exam include at least one question that requires some knowledge of alternative economic paradigms? The growth of ICAPE[4] and recent efforts to create umbrella projects, such as the recent and/or upcoming conferences on the history and future of heterodox economics in the U.S. are promising steps in this direction.

A key challenge for "heterodoxy" is to define itself in ways that move beyond the rubric of "non-neoclassical" economics. In defining a common ground in the "critical commentary" I have tried to do three things: (1) identify shared ideas that generate *a pattern of heterodox critique* across topics and chapters of introductory macro texts; (2) give special attention to ideas that link methodological differences to policy differences; and (3) characterize the common ground in ways that permit distinct paradigms to develop *common differences* with textbook economics *in different ways*.

Let me offer two examples of the latter point. I think holist alternatives to methodological individualism are one of the most fundamental differences between heterodox and neoclassical economics.[5] Holist alternatives are expressed differently, however, in different heterodox paradigms. For example, Marxist holism finds expression in "dialectics;" institutionalist holism highlights patterns of institutional reproduction; holism in radical economics often illuminates social structures of accumulation; feminist holism can involve systems of patriarchy; Post Keynesian holism highlights socially constructed conventions for responding to uncertainty; and so on. While the approaches are very different they all assert that there is a "coherence" to economic life that reproduces itself over time at a higher level of integration than the individual.

A second example involves epistemological issues. In contrast to neoclassical theory's assertion of a positivist-modernist epistemology, heterodoxy acknowledges the paradigmatic and multi-dimensional nature of knowledge. While different economists have taken this challenge in different directions (including the adoption of pluralist or Babylonian methodologies, the rejection of micro foundation requirements, the acceptance of empathy and aggregate analysis as viable research techniques, the adoption of critical realism, etc.), there **is** a common ground that expands economics discourse from the narrow terrain of textbook methodology.

Any attempt to create a common ground is inevitably going to exclude some "terra firma" for many perspectives. The commonalities and rubrics I have chosen work well along many dimensions, but not so well along others. With these qualifiers in mind, I offer the concepts below as a heuristic for promoting discussion of common ground in heterodox critiques of textbook economics. Because of space limitations I have simply listed and not discussed most of the categories. I will offer a few comments on the two asterisked categories whose meaning may not be self-evident from their title.

Heterodox paradigms share a common rejection of the following aspects of textbook economics:

- its positivist-modernist epistemology
*- its subtexts
*- its treatment of issues of well-being
- its inappropriate use of abstraction
- its universalization of *homo economicus*
- its allegiance to methodological individualism

In areas of particular relevance to macro theory, heterodoxy also rejects:

- its assumption of perfect information
- its assumption of perfect competition
- its use of comparative static rather than dynamic models
- its appeal to partial equilibrium intuitions to explore system-wide issues of macro coordination
- its abstraction from the monetary character of the economy
- its abstraction from the labor market's "subjective" dimension and the institutionally contingent determination of wage/profit shares

Some Comments on Subtexts

Heterodox critiques of neoclassical economics (at least the way I am using the term heterodox) involve two different kinds of inter-connected objections. Within neoclassical economics, the first might be seen as "normative" and the second as "positive" objections. One of the claims of heterodoxy, however, is that the sharp distinction between positive and normative statements claimed by neoclassical economics oversimplifies the complex relationship between the two. Thus I will call the two objections textual and subtextual. To some extent, the first deals with the techniques of analysis and the second with the goals of analysis (although the goals obviously influence and infuse the choice of techniques).

Many heterodox economists feel that neoclassical economics often acts as an apology for capitalism and laissez-faire oriented policy regimes. The neoclassicists ridicule the claim, analogizing it to finding ideology in geometry. I have found the concept of subtexts very helpful in explaining heterodox thinking.

By subtexts, I mean (1) the tacit and unprovable assumptions about the nature of society and the (2) normative ideas about the goals of economic knowledge that underlie all economic paradigms. Most intellectual work is motivated by a belief that the ideas pursued are worth knowing. Subtexts provide the context for knowing, i.e., they provide a backdrop that situates the knowledge in relationship to the projects it is intended to facilitate (i.e., it shows how the knowledge might be used).

Neoclassical and heterodox economics tend to have very different subtexts and, partially as a result of this, tend to offer radically different contexts for thinking about economics and public policy.

Illustrative of a larger list of textbook subtexts are the implicit assertions that:

1. Neoclassical economics is a scientific theory and as such demands belief in ways similar to modern physics.

2. Market outcomes reflect free choice.

3. People are naturally greedy, with insatiable consumer appetites. Capitalism is successful, in part, because it offers an incentive system that builds on this "human nature."

4. The major purpose of economic theory is to promote economic efficiency and economic growth, as both provide a basis for human happiness.

5. There is no alternative to capitalism. The failure of the former Soviet Union proves that socialism can't work. The message of the 20th century is "let (capitalist) markets work." The onus is on the government to justify "intervention" in the market.

In contrast, among the key subtexts in heterodox economic writings are claims that:

1. Economic analysis contains much more subjective and ideological content than acknowledged in neoclassical texts.

2. Markets offer both "free" and "coerced" "choice." Market exchange can not meet the full range of human needs.

3. The link between economic growth and human well-being is much more complicated than implied in neoclassical textbooks and has weakened considerably in the advanced economies.

4. Equity, environmental concerns, and the nature of the non-market economy (for example, the household economy) need increased attention in economic analysis.

5. Capitalist economies need to be embedded in a system of social governance to meet human needs (and for a subset of heterodox theorists: alternatives to capitalism need to be explored).

Some Comments on Well-Being

I think that issues of well-being, implicit in many heterodox paradigms, like Marxist and Post Keynesian economics, need to be made more explicit, as in socio-economics, ecological economics, and feminist economics. Most neoclassical textbooks devote little attention to analyzing the nature and causes of human well-being. They strongly imply, however, that there is a close positive correlation between national output and national well-being. While most texts briefly acknowledge that several factors might complicate the link between output and well-being, they generally ignore these complexities and imply that this is quite appropriate.

Heterodox economics (implicitly or explicitly) challenges the relatively mindless correlation between economic growth and human well-being animating neoclassical textbooks. Heterodox economists tend to give greater attention to empirical findings about well-being (like those of Richard Easterlin) and theoretical concepts that explore well-being, such as ideas about positional competition and "meta-externalities" (the effect of economic outcomes on non-economic societal variables like the viability of democracy). As a result heterodox analyses challenge the mantra of "let the market work" that echoes in principles texts

Contrasting Metaphors

I'd like to conclude with an abbreviated list of contrasting images that respond to Assumption 4's recommendation that heterodox critiques challenge the metaphors as well as the formal analytics of textbook economics.

Neoclassical Texts	Heterodox Alternatives
Economist as Scientist/engineer	Economist as Social Theorist
Key complementary disciplines:	Key complementary disciplines:
mathematics & computer science	anthropology and sociology
Homo Economicus	Homo-Sociales
(Rational Isolated Economic Man)	(Human Beings in Social Contexts)
the Invisible Hand	the Prisoner's Dilemma

the Auctioneer	the Casino
Perfect competition	Strategic Competition
and Passive Firms	and Active Firms

Crafting a common ground for heterodox critiques of textbook economics is inherently a collective project. I have had enormous help from many people who cannot be acknowledged here. I would welcome more feedback, as so too would the editor of this journal.

Notes

1. One can debate the status of Colander's thoughtful, but by his own admission, compromised text and hope that future editions of Stiglitz's book will move further in a heterodox direction. Despite their contributions to a more thoughtful economics, I find both books clearly on the neoclassical side of the ledger.
2. John J. Siegfried, (Secretary-Treasurer of the American Economics Association) and Bonnie T. Meszaros of the Center for Economics Education and Entrepreneurship: "What Should High-School Graduates Know in Economics? National Voluntary Content Standards for Pre-College Economics Education." *American Economic Review* 87(2) May 1997, p. 249.
3. While I am not sure that deployment of active learning teaching techniques inherently favors heterodox economics, many feminist economists and PAE contributors, such as Peter Dorman and Susan Feiner, have made interesting arguments that they do.
4. ICAPE = The International Confederation of Associations for Pluralism in Economics
5. Admittedly there are well known methodologically individualistic Marxists, though the concept seems an oxymoron to me. Nevertheless I think this perspective should be included in heterodox economics because of the broad overlap with heterodoxy in other areas.

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Please e-mail (scohn@knox.edu) if you have any suggestions for the commentary or wish to see sample chapters.

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How Reality Ate Itself: Orthodoxy, Economy & Trust

Jamie Morgan (The Open University, UK)

Quis custodiet ipsos custodies?
Who guards the guards?

An economic theory that cannot sustain its own possibility is a poor one but can also be a powerful one. A market economy may valorise the symbolism of the invisible hand but it is as equally beholden to the symbolism of the tacit handshake. The handshake is a metonym for a relation and a market economy is a set of relations inscribed in rules, tacit or otherwise. First amongst equals are trust and the means by which trust is enacted and maintained. Without trust nothing else functions and social reality would be impossible. The philosopher J. L. Austin was one of the first to recognise the importance of this.[1] There are at least two dynamics to talking about social reality. First, description where we designate things true or false by reference to them as objects or past events - the hat is black, yesterday was Wednesday and we had lunch. Second, performance, where current conduct and dialogue constitute a new conceptual element to social reality with material repercussions for future relations – the meeting of hands and *it's a deal*, or the negotiation and witnessed signing of a contract. In the immediate sense, performance is neither strictly true nor false since it is not initially a description, but a doing or making. The doing is in this first instance appropriate or inappropriate, sincere or insincere, successful or a failure. That it is done is in the second instance true or false – the contract as negotiated by two parties with the legal authority to engage in those negotiations was signed by each and entered into in good faith. The glue in this transition is the trust that binds the particular rules of appropriate interaction. The interaction may fail for a variety of reasons that cause immediate problems – an earthquake may prevent the delivery of a consignment required for a just in time production process. But these reasons are not devastating to the social institution in which they occur – the sustainability of business agreements perpetuating economic activity. However, when practices are designed to confound basic principles of transparent dealing, when rules are insincerely held, when a promise ceases to be something you intend to keep, trust dissolves and markets cease to look quite so 'spontaneously' vibrant.

The orthodox Cheshire cat

As has often been argued, the timeless, ahistorical, institution-free fundamentals of orthodox method cannot be easily reconciled to problems of markets as rule systems. But what does it mean that trust and the rules that constitute market systems are not a central problem for orthodox economics? Orthodoxy is about the spontaneous optimality that emerges from the removal of impediments. Since the very idea of rules tends to be conflated with regulation there's nowhere left to hang the structuring of markets. This of course forgets that deregulation is itself a (demonstrably inefficient) form of regulating rule. Its inefficiency and its contradiction is that this form of regulation tends to create the conditions for abuse that undermine the trust on which the free economic activity of markets is based. The radical individualism inscribed in it provides for the belief that *freedom to* massively predominates over *freedom from*. *Freedom from*, our collective protection from the abuses that undermine the very possibility of individual action, is pushed aside. This deep ideological commitment can be heard in the words of Milton Friedman:

> What's interfering with the recovery is all this fuss about corporate governance, which, in my opinion, is being carried too far. In all these cases – Enron. Global Crossing, WorldCom – it was the collapse in the market that brought attention to them. What's happening now is that the hullabaloo, which in effect is saying that to be a CEO is to be a member of a criminal class, is very adverse for enterprise and risk.[2]

But the collapse of the market is not some natural event, it is the dynamic consequence of complex interactions, many of them unanticipated or unintended. One aspect of that is how the practices that constitute markets can undermine the trust that markets require to function. Criminalizing CEOs *is* adverse for enterprise and risk but would not be occurring if their practices did not contribute to crises where they can no longer be disguised or ignored. Economists tend to forget about power, but all human systems have power asymmetries. For the powerful to be held to account indicates deep concerns. That orthodoxy cannot recognise this, still less contribute to its analysis in terms of its own theoretical tenets, indicates that it has little that is constructive to say concerning the analysis of an important cause of economic crisis.

In any case, one rarely sees far when the view is from the top, however clear the view may potentially be. In a recent speech Federal Reserve Chairman Alan Greenspan argued that both the $8 trillion dollar loss of share vale on the DOW at the start of the new century and the problems incurred as a result of Enron etc. indicated the general *health* of the financial system.[3] The basis of his argument was that technology had produced new opportunities for financial 'risk dispersion' and that 'a more flexible world economy' was spreading costs and absorbing shocks more readily. The proof? ‘No major US financial institution was driven to default.’ In adopting this position, Greenspan reveals himself as something of a stoic - w*hatever doesn’t kill us makes us stronger*. Still, the US financial institutions are scarcely the whole body of economy. Default has quite a different meaning for those impoverished by collapsing share values and ‘financial irregularities’. Risk dispersion is a rather hollow term for those unable to pay their mortgages or with no jobs to go to (US unemployment is 6% and rising). If we call the financial head healthy we must still ask ourselves how it is treating its economic body – as a temple or a trashcan? And need we call it healthy? 2001 was a record breaking year for fraud class actions (488) in the US against firms.[4] The majority by state pension funds and union pension schemes. Around 8 to 10,000 individual cases are being filed a year at the National Association of Securities Dealers (NASD). And all of this despite a change in the law to make it *more* difficult to sue firms for compensation for irregularity - the 1995 Private Securities Litigation Act means that ‘aiders and abetters’ of wrongdoing in a fraud case cannot be held liable.

Practices that undermine trust

The context of the problem of trust is a finance system keyed to the unrelenting pursuit of the next profitable firm and the next growth sector. Consistent growth provides the basis of a profitable firm and a profitable bull market for the financial industry. When a firm meets its revenue forecasts it can mean a large increase in its share valuation. Analysts categorise firms as ‘Market Out-performers’ (MOs), ‘Market Performers’ (MPs) and ‘Market Under-performers’ (MUs). Whether a stock is rated as a ‘buy’ a ‘neutral’ or a ‘sell’ is, in principle, related to which direction it is tending to in terms of these categories. Conventionally, our perception of shares is based on their price-earnings ratio or P/E.[5] The lower the ratio the greater the earnings of the stock as a proportion of its price and thus the faster one recoups the initial investment. P/E therefore provides a measure of the attractiveness of stock as equity. But how reliable are the price of the share and the earnings of the firms as indicators of the decision to invest? What lurks beneath the numbers? Here, knowledge is power:

- The power to construct the firm’s reported revenue stream occurs within strong pressures to place it in its best possible light. In terms of trust, one confronts the question of how far the relationship between the accountants and the firm can stretch. When does creative accounting become aggressive accounting that in turn becomes collusion in fraud?

- The power to manipulate stock prices through complex financial arrangements on the basis of information that others do not have. Here, the problem of trust comes up against the question of at what point expertise becomes self-interest to the detriment of the system from which it feeds?

This is not just an issue of legality since trust is more than a question of ‘were any laws broken?’ Part of the constitution of trust are the ethics that inform how law is made and how it is adhered to – in its spirit or in its letter? The grounds of trust are extremely difficult to define, but easily lost. Losing sight of the importance of trust is the downfall of the system. Its dysfunction becomes ravenous and reality begins to eats itself. Its clearest expression is a debilitating scepticism. Its immediate, though by no means final, consequence is a downward spiral of corporate valuation.

Cannibalising reality?

The past five or six years have seen numerous financial scandals. Since economy is an open system one tends to find a complex interaction of some or all of the above practices within those scandals. The dot.com bubble provided a great deal of scope for spinning (the preferential allocation of stock to favoured clients) and laddering (having investors promise to buy more stock at progressively higher prices once trading begins). Though cases of spinning are alleged on the London markets, New York has been the focus of investigation.[6] New York Attorney-general Eliot Spitzer has been engaged in protracted investigation of 12 of the major financial institutions for forms of spinning. Most of the evidence is based on private e-mails and documents that contradict the public statements of investment analysts. Henry Blodget, a Merrill Lynch analyst, for example, publicly rated Infospace stock as a buy whilst privately noting, 'This stock is a powder keg… given the bad smell comments that so many institutions are bringing up.'[7] Breach of Chinese walls is also alleged against Citigroup's investment banking arm Salomon Smith Barney, which consistently rated Qwest Communications as a 'buy' up to the point of its price collapse. At the same time, Philip Anschutz, Qwest's founder, was selling Qwest shares amassing a $1.45 billion profit. Anschutz also received 57 allocations for various share issues at a personal profit of around $5 million from Salomon whilst Qwest had generated $37 million in revenue for Salomon from its transactions.[8] Fines imposed by the Securities and Exchange Commission (SEC) on the banks currently stands at $1.4 billion. $900 million of which constitutes compensation for investors, $450 million to fund independent research (to maintain Chinese walls) and $85 million for 'investor education'.[9] $400 million of the total will come from Citigroup (who have also set aside $1.5 billion to meet the costs of compensation for further investor litigation).[10]

The dot.com firms themselves and also the new telecoms were highly prone to creative accounting based on capacity swaps and barter in order to massage their revenue figures during the early phase of set-up. This and talk of new business models making money in completely new ways with extremely low long-run fixed costs sucked in masses of venture capital (over $40 billion of which is now lost).[11] At the same time, as a high growth sector, dot.coms provided (along with various high growth sectors of overseas markets) one of the initial areas of high-risk that proved extremely attractive to split capital trust (SCT) managers. The fact that some of these issues were spun, of course, meant that the estimation of risk by those managers was baseless and their vulnerability far greater than even they could imagine. Any other shock to the system, such as 9/11, could only exacerbate their vulnerability. The collapse of Aberdeen Asset Management's SCTs, contributed to the £10 billion lost by more than 50,000 private investors in this sector.[12]

The possibility that even apparently low risk investments are not what they seem also emerged. The misuse of "special purpose vehicles" and "off-balance sheet obligations" (OSOs) prevents investors relying on firm's accounts with any degree of confidence. WorldCom used OSO's to keep $4 billion off balance. In 2000 Enron was 7th in the *Fortune* top 500 with reported revenue in excess of $100 billion (a 150% increase on the previous year).[13] Its shares traded at over $60. Its chief financial officer, Andrew Fastow orchestrated several SPVs set up in the name of his children and his wife, from which he allegedly earned $30 million in fees and siphoned assets. The decline of the DOW over the turn of the millennium made the use of Enron stock to finance continued debt restructuring more difficult and on October 16th 2001 Enron posted a bombshell $1.01 billion loss. The vulnerability inherent in its revenue enhancements then kicked in in earnest. On the 17th the *Wall Street Journal* publicised Fastow's SPV connections. On the 29th Moody's Investor Service, down-rated Enron's credit rating increasing the servicing costs of its newly revealed debt. By December 2001 the firm had filed for bankruptcy and it was all over. Its share price had collapsed to less than a cent. Numerous small investors who had relied on its stock for their pensions and large pension funds themselves were hit hard. State pension funds in New York, Georgia and Ohio lost over $350 million. By February 2002 the Bank of America had $231m in Enron related losses. One hundred Merrill Lynch executives lost $16 million of their own money invested in an Enron partnership.[14] Ordinary Enron employees received no severance pay. In November, however, senior staff had awarded themselves $55 million in 'retention bonuses' from the dregs of its coffers. Just prior to the October 16th loss statement 29 senior executives sold stock, over a dozen reaping in excess of $10 million. A class action suit has now been brought against them for insider trading whilst Fastow, and a number of collaborating London bankers, have been indicted for fraud.[15] Meanwhile, Enron's accountant, Arthur Andersen was indicted for obstruction of justice. Its other clients bailed out to the remaining Big Four accountancy firms and Arthur Andersen, previously the fifth largest professional services firm in the world was liquidated. The nature of Andersen's relation to Enron is suggested by the following statement from an anonymous former executive of the firm:

> Everyone makes the mistake of thinking Andersen and Enron are separate companies. There are hundreds of ex-Andersen people inside Enron, a bunch of young kids just out of college. Give those new Andersen kids a downtown loft, a new Lexus and show each one the golden path to becoming a partner. Hey learn to do things the Enron way.[16]

The initial fallout from Enron was the re-auditing of accounts previously held by Andersen. Deloitte & Touche, for example, took over the audit of MyTravel from Arthur Andersen, its re-audit took £15m off the profitability of the firm. Share prices subsequently fell by 36%.[17] With revelations concerning SPVs major news, corporations moved quickly to distance themselves from any hint of scandal. Blue-chip firms, such as Xerox, have been publicly realigning their former accounts and future forecasts. But according to the IMF, 'questions regarding the quality of reported corporate profits in the aftermath of Enron's failure continue to have an adverse impact on international and corporate bond markets.' As Mathew Wickens of ABN Amro says, part of the problem are the figures firms are posting because 'we don't really know what they mean.'[18] Presswatch ranks accountancy as the top service sector for column inches of negative publicity. People are sceptical about stock markets. In a survey by the investor group Pro-Share more than half the 450 investors questioned felt less confident in the accuracy of company accounts. 'One in three believes auditors are not independent of the companies they audit.'[19] The collapse of trust, therefore, places Friedman and Greenspan's rather blithe accounts of the $8 trillion fall in the DOW in a rather different light.

The effects of the collapse have been widespread. California, the richest state in the union with an economy of $1.3 trillion faces a $21 billion budget shortfall in 2002.[20] Some of this is due to general recession to which the collapse of the stock market has contributed. Some if it is directly attributable to that collapse. In 2000, California received $17 billion in taxes on stock market profits, mainly from dot.coms, in 2002 that fell to $5 billion. Cuts in state spending of $10 billion have subsequently been announced including state worker redundancies, pay freezes and also reduced healthcare expenditure for the poorest in society. Californians were also direct victims of Enron. It has been alleged that Enron traders triggered widespread blackouts by buying huge blocks of power capacity in the state's electricity market to artificially increase the price of their own supply.[21]

What secrecy reveals

Sophisticated capitalism allows for a variety of primitive abuses. This is not simply an issue of lies and deceit. To argue this way is to reduce the problem to the agent, to the bad apple, rather than the conditions of enablement within the orchard. Analytically, this does not move one far enough away from orthodoxy and radical individualism. Deceit is the tip of the structural iceberg. The full nature of the rules of the structure and the way in which they are held needs to be considered. The US Sarbanes-Oxley Act, which now requires finance directors and CEOs of listed companies to attest to the accuracy of their accounts or risk jail, is a step forward in giving teeth to corporate governance, but it is not in itself corporate governance. Nor does it restore trust, since once rules are codified firms will seek to exploit them. What is also needed are ethics of appropriate action that mitigate the desire for such exploitation. How one might maintain them under the pressures of competitive capitalism is an open question, but it is not one that should be conflated with lying *per se*. There can be an ethical good in being economical with the truth. In macro policy it makes no sense to confirm a run on a currency or confirm some policy that relies on surprise for its effectiveness but has been leaked (such as currency devaluation). Equally, rules cannot be overly general across economy – there are good reasons why the police don't work on commission. What is certain is that orthodoxy adds nothing constructive to the debate on markets as rule systems. It does not lie, but it is false. A lie in social science, like honesty in politics, is usually found out and punished. But false knowledge has a life of its own. Ironically, one wonders, therefore, if Keynes is entirely correct in his sentiment when he argues, 'you can't convict your opponent, you can only convince him.'

Notes

• Thanks to Vicky Chick for reminding me of the quote from Keynes used in the conclusion.

1. pp. 45-52, J. L. Austin, *How To Do Things With Words* (Oxford: Oxford University Press, 1962)
2. D. Smith, 'Feisty at 90 – Friedman Speaks Out,' *The Times Business* September 8th 2002.
3. Text reproduced in full *The Times Business*, September 27th 2002.
4. J. Doran, 'After the bust, a boom in fraud suits for Wall Street's lawyers,' *The Times Business,* November 30th 2002.
5. $PE = \frac{p-g}{p} / (I + e - g)$

R. Marris, 'Have the markets reached bottom?' *The Times Business* November 7th 2002. R. Cole, 'P/e ratios indicate good value,' *The Times Business* July 20th 2002.

6. In the UK see, Insight team, 'Revealed: the cosy deals that taint Goldman Sachs,' *The Sunday Times Business* November 24th 2002.
7. See A. Rayner, 'Spitzer poised to reveal fresh evidence against 12 banks,' *The Times Business* November 2nd 2002.
8. R. Lambert, 'Are Wall Street's Ethics Dead?' *The Times* October 8th 2002.
9. D. Rushe, 'War is over (on Wall Street at least),' *The Sunday Times Business* December 22nd 2002.
10. J. Doran, 'Citigroup plans $1.5bn fund for compensation,' *The Times Business* December 24th 2002. A. Rayner, 'US banks to settle with regulators,' *The Times* December 9th 2002.
11. N. Hopkins & T. Bawden, 'Spectre of high-tech bubblelingers on,' *The Times Business* November 8th 2002.
12. P. Durman & L. Armistead, 'Dotty, the champion of split caps,' *The Sunday Times Business* October 27th 2002.
13. See B. Cruver, *Anatomy of Greed* (London: Hutchinson, 2002).
14. D. Rushe, 'Enron Watch,' *The Sunday Times* February 3rd 2002.
15. 78 charges have been filed so far. 'Former Enron chief to face more charges,' *The Times Business* December 27th 2002.
16. B. Cruver, 'I had a lucrative career… but it cost me my soul,' *The Times Business* October 2nd 2002.
17. J. Ashworth, 'Unearthing the Arthur Andersen time bombs,' *The Times Business* Thursday October 10th 2002.
18. L. Paterson & G Duncan, 'IMF fears more shares misery,' *The Times Business* June 13th 2002.
19. D. Wild, 'A horrible year, but at least now accountancy is sexy,' *The Times Business* December 19th 2002.
20. C. Ayres, 'Economic woes take lustre off Golden State,' *The Times* December 11th 2002.
21. J. O'Donnell, 'Enron's 'tricks plunged California into darkness'', *The Sunday Times Business* October 6th 2002.

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Austrian Economics and the Post-Autistic Economics Challenge

Peter Wynarczyk (Northumbria University, UK)

1 Introduction

The post-autistic challenge to orthodox economics echoes criticisms that have been made by non-mainstream economists ever since entrenched conventional wisdoms were established within the discipline. They represent variations on standard heterodox themes, albeit largely originating from refreshingly grass-root student sources. The following short article is sympathetic towards a large part of the post-autistic agenda but remains wary of several issues located at the core of that agenda. In addition, it suggests that the Austrian research tradition has made a sustained and constructive case (over a prolonged period of time) *against* the prevailing mainstream orthodoxies, increased and widened knowledge of which would serve to enhance and enrich the post-autistic challenge itself. Increased dialogue between these two parties, as well as with *all* other heterodox elements *along with* orthodoxy, can only serve to improve matters and actualise the promise of the intellectual gains from trading ideas embedded within the commitment to pluralism within the discipline *as a whole*.

2 The Post-Autistic Agenda

The post-autistic challenge has crystallised around several key problematic elements associated with economics as a discipline, the hegemony of neoclassical ideas, and the teaching content and delivery of the subject within university academic circles. Taking my cue from the grass-root concerns of students (and some of their teachers) in France, Cambridge UK, and Kansas City, and relayed by this review and its earlier incarnation, it can be argued that the post-autistic agenda highlights *contra* orthodoxy:

1 the need for the recognised inclusion of a plurality of approaches and methods within economics, respecting the history of ideas, fostering debate and critical thinking, alongside inter and intra disciplinary dialogue, diversity and openness;

2 the need for the triumph of real over imaginary constructs;

3 the removal of formalism for formalism's sake, especially with regard to the preoccupation and over-application of mathematics (usually as an end in itself) and the heavy dosage of theory largely unattached to any empirical base;

4 the adoption of richer models of human agency and institutional change which seriously consider such factors as culture and history as significant active ingredients in any explanatory framework;

I view these four points as the core of the post-autistic agenda and the basis of its critique of a detached, monopolistic and hegemonic neoclassical orthodoxy. Indeed, dissatisfaction is largely captured by points 1 and 2; with points 3 and 4 as a further teasing out of the consequences of point 2 and the application of point 1. In what briefly follows I will suggest that Austrian economics *anticipates* and *already addresses* most of these concerns. Over its not inconsiderable life cycle it has persistently challenged the restrictive and overly limited 'what is' approach of mainstream thinking and offered a constructive glimpse of the possible, of 'what can be'. To its credit, and unlike a number of its heterodox rivals, it has been more focused on highlighting and demonstrating the inadequacies and shortcomings in neoclassicalism *and endeavouring to overcome them* than in dwelling on the alleged irrelevancies without attempting to sufficiently advance beyond them.

3 Austrian Anticipations of the Challenge and Their Answers

Almost all of the post-autistic critique of orthodoxy outlined above was *raised and is largely being answered* by the Austrian research tradition. This may be surprising to those who have tried to reduce Austrian economics to a subset of neoclassicalism. I am not suggesting that Austrian economics was alone in anticipating the post-autistic critique, a pitch can, and has, already been made by others for institutionalism, but rather that it would be a mistake to believe that the target of orthodoxy *includes* Austrian economics itself – it cannot.

Modern Austrian economics increasingly presents itself much more as an *alternative* to orthodoxy rather than a *supplement*. Given Austrian arguments against simplistic aggregation it should come as no surprise to find that the research tradition has always contained (and been willing to sustain) a diversity of views. Currently there are two opposing but dominant wings within Austrianism represented by Lachmann and Kirzner; with the former advancing a more radical form of dynamic subjectivism to *replace* mainstream 'equilibrium always' theorising, and the latter an entrepreneurial and process orientated but 'equilibrium tending' approach as a *bolt-on* to orthodoxy. In recent years there has been noticeable increased intellectual convergence and reconciliation between these two positions, entertaining the possibility of both dis-equilibrating and equilibrating activity allowing for both change and order. Since the 1970s the Austrians have been largely engaged in rediscovering their Mengerian insights which, when allied to distinctive Misesian and Hayekian contributions, raises serious questions, at the ontological and conceptual level, against standard economics. It also suggests that the Austrian research tradition today, taken as a whole, is as far removed from mainstream economics as it has ever been in its history. Its commitment to the construction of 'better theory' addressing issues largely neglected but epistemically threatening to orthodoxy means that incorporation into the modern neoclassical fold is neither wanted nor warranted.

Given this background, it is now time to consider how Austrian economics anticipated, largely answered, and remains less vulnerable to attack from the core points of the post-autistic agenda outlined above. Each point will be examined in turn in order to explore the merits, similarities and possible differences between Austrian economics and the post-autistic challenge.

3.1 Pluralism and Dialogue

The Austrian research tradition has demonstrated throughout its history a willingness to entertain diversity and embrace debate. It has engaged with the mainstream and the heterodox in equal measure and on an equal footing. Austrianism has challenged neo-Walrasian economics (captured in the planning debate concerned with the possibility of economic calculation under socialism) and Marshallian economics (most notably the debate over the nature of economic crisis). In addition, it had an infamous 'methodenstreit' with German historicism, made repeated attempts to 'close' Marxism, and endeavoured to undermine Keynesianism. It continues to engage with the largely Chicago-based mainstream and with the heterodox elements of Post-Keynesian and Institutional economics. I believe that this is all to Austrian economics credit and reflects its commitment to pluralism and its belief in the competition of ideas.

Austrians appear to have taken John Stuart Mill's strictures *On Liberty* seriously. His text advances the pluralist case by advocating the maintenance of rivalry between different perspectives on the grounds that this leads to pronounced benefits. Mill believed that dialogue between alternative frameworks was both a defence against stifling dogma and a positive sum gain to all parties concerned. He argued that the existence of rival traditions provided a necessary safeguard against intellectual slavery and complacency by keeping us on our toes and alert to improvement. This would be further enhanced if we welcomed criticism from without and endeavoured to understand our opponents from within. This potent argument for pluralism is further buttressed by Austrian insights on the dangers of monopoly provision and state socialism where the absence of genuine rivalrous competition will prevent innovation of products and ideas that may prove to be of far greater benefit than those currently employed (hence preventing the market to act as a discovery procedure). Deeply entrenched vested interests will endeavour to stifle any enterprise and developments, no matter how meritorious, which threaten and undermine its own. It is useful to remain mindful here of Schumpeter's insight on 'creative destruction' and the need for the new to promote progress.

Another notable feature of Austrian economics has been its continued interest in the history of the discipline in general and its own history in particular. Hayek, Robbins, and Schumpeter especially stand out here with regard to their seminal contributions to economic historiography. Given orthodoxy's increasing neglect of the past (since anything of value is assumed to be adequately contained in the present stock of neoclassical knowledge) these and other accounts of pioneering efforts go largely unread. Mainstream texts are now usually presented as sterile, complete, polished, and fully-formed accounts of orthodox thinking at its current destination without adequate discussion of the interesting way it got there. In contrast, Austrian economics continues to have a fascination and respect for its own history (and that of the wider discipline). Austrian economists remain firmly wedded to the central texts which have driven their research tradition from Menger onwards as sources of inspiration and direction. By accepting the need to 'rediscover' Menger or 'reinterpret' the economic calculation debate, they are rejecting the orthodox stance already alluded to that the present *by necessity* contains all of the useful past. A key exponent of the Austrian treatment of historiography who epitomises this position most forcibly is Lachmann. He adopts a critical but humane stance in his treatment of intellectual forebears by accepting that the ideas they advanced were neither the final word on the matter (without limitations or open to challenge from alternative explanations) nor inherently exhaustive or fully-developed (in the sense of being articulated to complete closure). Lachmann is asking us to be alert to the possibilities of re-examining the ideas of the past in the hope that they might further illuminate the present or a problem of which their originator may have been unaware. He has drawn attention to the problem of the 'storage of ideas' – the carrying over of intellectual capital that *has not been fully utilised* from one generation to the next - and the need to 'salvage' such ideas when lost. In his own work he has endeavoured to re-examine the legacy of Max Weber, to reconcile aspects of Keynes and the Austrians, and to explore the striking similarities between the outlooks of Mises and Shackle.

3.2 Real Over Imaginary Constructs

Orthodox economics continues to allocate too many intellectual resources to fictions and imaginary constructs detached from reality. Its comparative success *within the limited and restrictive domain it has set itself* cannot be denied but it has been slow to move persuasively beyond this insulated fabled terrain and engage meaningfully with real world matters. Whilst some underlying assumptions may be relaxed and more realistic applications pursued, especially at the margins, its core remains largely immunised from any degree of external epistemic threat.

The Austrian research tradition has been engaged in a persistent and sustained assault on the methodological, ontological, conceptual, and theoretical limitations and shortcomings of mainstream economics ever since its inception. Much of their critique has been directed at the lack of realistic assumptions, over-simplistic argument, and models that continue to capture *at best* surface phenomena rather than essential characteristics. Several examples drawn from the Austrian research tradition serve to attest to these claims:Menger's rich presentation of inherently flawed human agency remains at odds with the clinical rational choice maximisation model; Mises' recognition that orthodoxy *dwells* on fictions such as the imaginary constructions of equilibrium and neutral money rather than market process and money having real effects; Hayek's demonstration of mainstream economics concentration on the static 'pure logic of choice' framework and its fatal neglect of knowledge and informational deficiencies; and finally, Lachmann's vibrant and intricate picture of capital and its structure illuminates an area of economics that continues to be largely shrouded in darkness. Perhaps the best example of the Austrian case against orthodoxy is captured in their 'fundamentalist revolution' – the so-called economic calculation debate. As modern Austrians have shown in their reappraisal of the significance of that debate, economic calculation demonstrated more than the impossibility of socialism, it showed the wide gulf between the rediscovery of the Mengerian vision by Mises and Hayek and the neoclassical Walrasian vision employed by the competitive socialists. It helped to pronounce the huge and increasingly unbridgeable distance separating Austrian and mainstream economics to this day. It also demonstrated the importance of the need to re-examine and salvage ideas insufficiently regarded in the past.

3.3 Substance Over Form

Mark Blaug, one of a growing band of economists who has drawn attention to the widespread misuse of formalism in modern economics, sees it as 'an ugly current', 'a disease' and a 'bad game' that economists increasingly play. Given what was said in the previous sub section it should come as no surprise to find that Austrians too deplore orthodoxy's predilection for form over substance and the use of formalism for formalism's sake. They, unlike much of the mainstream, have always been willing to trade form for substance and this has been a major driver of their research tradition. Attention has already been drawn to the Austrian rejection of micro-formalism, and the same is true of their rejection of macro-formalism with its heady mix of aggregation and prediction. They have a record of rejecting both the over-application of mathematics (usually as an end in itself) and the use of pseudo-scientific econometric methods lacking adequate correspondence with the social realm. Austrians largely eschew mathematics because it lends itself to the neglect of qualitative change and genuine novelty whilst econometric techniques endeavour to reduce the social world to the physical. It has to be conceded here that whilst the Austrians do want their theory to be grounded in reality they have, to date, set less store in identifying the appropriate empirical base for their analysis. They will certainly need to explore such matters, especially with regard to their identification of the relative strength of the forces of equilibrium and disequibrium appertaining in the economy at any particular time.

3.4 Human Agency and Institutional Change

Orthodox economics is beset with behavioural and institutional deficiencies largely caused by its failure to embrace the temporal and non-price dimensions of human activity. Culture and history tend to be underscored because economic action (often generalised into capturing all action) usually takes place outside of interpersonal space or historical time. Individuals tend to come fully-formed and sufficiently informed to ply their maximisation techniques, removed from any societal or historical context. This picture of human agency has long been a target of attack and ridicule from heterodox economics *including* Austrian economics. Indeed I would suggest that the Austrian *alternative* remains far richer and more developed than any so far advanced outside of the mainstream.

Austrian economics advances a middle-ground position with regard to human agency: rejecting *both* the idea of the individual as a completely independent entity *or* as an agent who has no meaningful or purposeful choices to make. This is all captured in Mises' notion of *human action*; with the human emphasising the social element and the action emphasising that such activity can make a difference. Austrians, following Mises, recognise that agents are social beings, the products of given situational contexts, and prime movers of change. They also acknowledge that preferences are neither fully-formed nor stable but have to be discovered and are largely endogenously determined. In addition, Austrians accept that human agency takes place within historical time and an institutional setting. Human decisions are fallible, based upon inherent and irremovable ignorance, borne out of the existence of pervasive and genuine uncertainty and concomitant computational problems. Within such a framework, institutions serve both to constrain and enable purposeful behaviour by providing a set of rules, conventions, or inertias. The Austrians, ever since Menger, have been interested in the role of firstly, spontaneous, then secondly, designed institutions or orders. They have displayed a preference for the former (especially the market) over the latter (especially the state) in the non-ergodic transmutable reality which we live, serving as uncertainty-reducing (but not eliminating) 'points of orientation'. Of course, more work needs to be done by the Austrians with regard to institutions but efforts by the likes of Hayek, Lachmann, and more recently O'Driscoll and Rizzo, suggest possibilities for further progress, especially embedded within an evolutionary, path-dependent, framework buttressed by human action under uncertainty.

4 Final Thoughts

It has been argued above that Austrian economics offers an interesting window from which to view the post-autistic challenge to orthodoxy. The Austrian research tradition offers *both* a robust critique of mainstream economics and an alternative borne out of pluralism and dialogue with *all* its rivals and a commitment to real rather than imaginary constructs. It rejects formalism and advocates a richer model of human agency than any of its competitors.

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A Reply to Perino on the Absurdity of "Efficiency"

Richard Wolff (University of Massachusetts, Amherst, USA)

I am pleased that Grischa Perino found so much that was agreeable in my critique of efficiency.[1] On the other hand, I believe Perino missed one of its central points. Just as beauty lies in the eyes of the beholder, so efficiency lies in the minds of economists and others who use that concept. Proponents of different economic decisions, policies, and class structures typically deploy their different efficiency calculations in theoretical and practical battles. Moreover, they do so on an absolutist terrain. That is, each contesting efficiency calculus promotes itself as *the* efficiency calculus whose results must trump all others. The form of this debating ploy is often to denounce the opposing position and its efficiency calculus as based on "arbitrariness" while one's own rests on the foundational certainty of rigorously measured costs and benefits. Perino is concerned about this charge of arbitrariness, yet it is subject to a critique identical to the one he found persuasive regarding efficiency. Arbitrariness, like beauty and efficiency, lies in the eye of the beholder.

Every efficiency concept depends, my article argued, on a very particular presumption about causes and effects (that one can reduce a list of costs and benefits to a singular causative economic act, policy, or conditions whose efficiency is to be measured). Likewise, each efficiency concept can only select and measure a small subset of the infinite present and future costs and benefits ramifying from any economic act, policy, or condition. Efficiency measures are thus inescapably as variable, idiosyncratic, and incommensurable as the different presumptions and selections underlying them (to which they are *relative*). Yet they persist as ideological bludgeons used by adversaries attempting to suppress their opponents by claims that one economic process is more or most efficient *absolutely*. Thus, to mention a few examples, socialist economies are less efficient than capitalist economies, deregulated markets are more efficient than regulated ones, minimum wage laws diminish efficiency, and so on.

Across the ages, individuals and groups made economic decisions and evaluated economic policies and systems by considering – in particular ways - some selected aspects of them. These considerations differed across groups, time, and place. Nothing was "arbitrary" in the decisions and evaluations nor in the considerations leading to them. Their social contexts overdetermined which issues arose for decisions and how different social groups responded (i.e., which particular aspects they selected to consider and in which particular ways).

Economists debating the great issues of our time often use absolutist efficiency arguments against one another, charging each other with the "arbitrariness" that concerns Perino. My critique of efficiency attacks the terrain of such debates. It also advocates an alternative terrain where the debate would center on the specific values that contest to shape history. On that terrain, efficiency claims, like arbitrariness claims, would be recognized for what they are: very questionable derivatives of contesting values. Rather than being disguised and manipulated as issues of efficiency and arbitrariness, the struggles among alternative values (political, economic, and cultural) would emerge as such. Behind the mask of "experts" who do "efficiency measurements" to "reach optimum decisions," both democratic participation in decision making and critical alternatives to the status quo are usually repressed. The critique of efficiency (like that of the accusation of arbitrariness) is aimed at undoing such repressions in the service of basic social change.

Note

[1] See Grischa Perino, "Need Efficiency - and Much More! A Response to Richard Wolff", *post-autistic economics review,* issue no. 17, December 4, 2002, article 7. http://www.btinternet.com/~pae news/review/issue17.htm and Richard Wolff, "Efficiency: Whose Efficiency," *post-autistic economics review*, issue no. 16, September 16, 2002, article 3. http://btinternet.com/~pae news/review/issue16htm.

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