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In this issue:

- G. C. Harcourt

What would Marx and Keynes have made of the happenings of the past 30 years and more?

- Richard D. Wolff

The Riddle of Consumption

- M. Ben-Yami

Fisheries management: Hijacked by neoliberal economics

- Deborah Campbell

Here's what economics students in three countries are doing to put their professors on the defensive

The economics of Keynes and its theoretical and political importance: Or, what would Marx and Keynes have made of the happenings of the past 30 years and more?*

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I

I start with two propositions: first, that Maynard Keynes and Karl Marx, were they still with us, would have made far more sense of the happenings of modern capitalism of the past 30 to 40 years than do the more modern approaches to macroeconomics of the same period; and, secondly, that Keynes would have sat down and tried again to save capitalism from itself. (Marx may have rubbed his hands and hoped that its demise, so often predicted by him and his followers, was at last on hand – but I could not bet on either of these.) It may surprise you that I couple Keynes and Marx together, but I would argue – the evidence is supplied in a fine book by Claudio Sardonì (1987) – that, adjectives apart, when Marx and Keynes examined the same issues in the capitalist process, they came up with much the same answers. Perhaps, on further reflection, this should not be surprising, for along with Michal Kalecki and Joseph Schumpeter (said by Joan Robinson to have been Marx with the adjectives changed), they have made the deepest, most insightful analyses of the laws of motion of capitalist society in our profession. (Marx's views on socialism are another matter, see Harcourt and Kerr (2001a).)

II

I shall say more about their analyses below. First, let me clear out of the way why I think the modern approaches are less than satisfactory. They employ *either* representative agent models, *or* Frank Ramsey's benevolent dictator model, *or* an emphasis on certain imperfections in the workings of capitalist institutions, such as are to be found in New Keynesian models: sticky wages and prices, imperfectly competitive market structures, asymmetrical information and the like.

Modelling the economy as a representative agent rules out by assumption one of the fundamental insights of Keynes (and Marx), to wit, the fallacy of composition, that what may be true of the individual taken in isolation is not necessarily true of all individuals taken together. This implies that when looking at the macroeconomic processes at work in capitalism, we cannot presume that the whole is but the sum of the parts. Indeed it is not. We have, therefore, to consider the macroeconomic foundations of microeconomics as James Crotty, citing Marx, told us long ago now, see Crotty (1980), and on which Frank Hahn, innocent of all this, is now working, as has been Wynne Godley too for many years. In fact that great and wise Keynesian, Lorie Tarshis, regarded the use of the representative agent as the greatest heresy of modern macroeconomics and explained why in Tarshis (1980), see also Harcourt (1995; 2001a).

As for the use of Ramsey's benevolent dictator model, a re-read (or a read for the first time) of his classic 1928 article, "A mathematical theory of saving" together with his own scathing assessment of it¹, ought to show how fanciful it is to argue that, in a completely different setting, it could illuminate what has been happening in actual interrelated modern economies in recent decades, in fact, any decades. As for the New Keynesians, while it is possible to applaud many of their policy conclusions and make common cause with them on them (a plea I first made in 1980 though my paper was not published until 1996-97, see Harcourt (1996-97; 2001a)), I submit that their policies do not always follow logically from their theories. By basing their results on imperfections, they imply that if the latter were not there in the first place, or were to be removed, all would be well. But as Marx and then Keynes argued, freely competitive capitalism with power diffused equally between all individual decision makers and the recipients of such decisions,

especially wage-earners, so that, in effect, no one individual has any power, still would not work in an optimal manner. In particular, it would not necessarily provide full employment of labour and capital either in the short or the long period, so that booms and depressions, inflations and deflations and in certain circumstances deep crises, could still be the order of the day. An especially astute argument for an aspect of this set of arguments is to be found in Nina Shapiro's 1997 paper, "Imperfect competition and Keynes". She argues, plausibly (but fairness demands that I refer the reader to Robin Marris's paper, "Yes, Mrs. Robinson! *The General Theory* and imperfect competition", Marris (1997), that immediately precedes Nina's paper in Harcourt and Riach, vol. 1 (1997)), that an economy characterised by freely competitive market structures would have cycles of greater amplitudes and higher average levels of unemployment over time than one characterised by imperfectly competitive market structures. This insight is shared both by her contemporaries, for example, Paul Davidson and Jan Kregel and by distinguished predecessors, for example, Austin Robinson who always lamented the relative lack of interest by Keynesians in the early post-war years in the systemic effects of market structures, regional experiences and requirements and the like, Michal Kalecki, whose review of *The General Theory* which alas, though published in Polish in 1936, was not available in full in English until 1982, see Targetti and Kinder-Hass (1982), forcefully makes this point in his usual lucid and succinct way, and John Kenneth Galbraith in his greatest classic, *The New Industrial State*, Galbraith (1967). All these economists, together with Marx and Keynes, were analysing how key decisions made in an environment of inescapable uncertainty impact on systemic behaviour.

The thrust of Robinson's, Galbraith's and Shapiro's argument is that anything that reduces the impact of uncertainty on the decisions on the production, employment and, most importantly, accumulation of firms (the most fundamental unit of analysis in Keynes's macroeconomics, a point emphasised repeatedly by Tarshis, one of Keynes's most devoted pupils and disciples, see Harcourt (1995; 2001a)), is likely to result in more satisfactory and stable systemic behaviour. Especially is it likely to beget a higher rate of accumulation on average and so a greater chance of absorbing (offsetting) the level of saving associated, if not with full employment levels of income, at least with high levels, certainly higher levels than would occur in a system characterised by the Marshallian freely competitive structures that Keynes used for most of the time in his models in *The General Theory* itself.

Though the New Keynesians have mounted vigorous and, to my mind anyway, telling counter-attacks on the new classical macroeconomics within the latter's own framework, see, for example, Hahn and Solow (1995), they have not themselves completely escaped from the clutches of what Joan Robinson once aptly dubbed "Pre-Keynesian theory after Keynes", Joan Robinson (1964). It is true that they have routed the extreme idea associated with the beginning of the use of the hypothesis of rational expectations by the new classical macroeconomists that the world may be analysed as *if* perfect competition and perfect foresight reigned so that the Arrow-Debreu model could be used as the base on which to erect theory and policy. And it is also true that the rational expectations hypothesis when it is uncoupled from the Lucas vertical aggregate supply curve, is just a hypothesis deserving to be tested. Indeed, if it were found not to be inconsistent with the facts, and if the world is correctly illuminated by Keynes's model, coupling them together would serve to reinforce policies of intervention for then thinking alone could make it so, as it were. Yet, having cheered all this, there are still so many remnants of what Keynes dubbed classical economics present in the New Keynesian approach as to make it logically unacceptable as the appropriate model or even "vision" for starting an analysis of the modern world: that is to say, a world in which foreign exchanges have been floated, sometimes dirtily, often freely, financial markets have been deregulated, credit has been made "available to all", capital controls have been removed in many economies, labour markets have been made flexible (a euphemism for making the sack effective again by recreating the reserve army of labour after the full employment years of the long boom as the Marxists have it or Golden Age of capitalism as the Left Keynesians dubbed it), international trade has been liberalised at least in some directions, often at the expense of the South and to the benefit of the North, and technical advances have reduced the length of the short run in financial and other markets to hours rather than weeks or months. For it is not obvious that the equilibrating mechanisms of supply and

demand (even if associated with path dependence) with their underlying theme of harmony, balance and voluntary choice are universally the appropriate tools to use. So let us reiterate the essential lessons that Keynes taught us.

III

I briefly sketch what I have come to believe is the essence of Keynes's new position, as he saw it himself in 1936 and 1937, as he moved from the *Tract* through *A Treatise on Money* (1930) to *The General Theory* (perhaps we should start from *A Treatise on Probability* (1921) and *The Economic Consequences of the Peace* (1919).) I do not give chapter and verse for what I have to say; it is based on my reading over many years of *The General Theory* and Keynes's other books, the *Collected Writings*, especially volumes XIII, XIV and XXIX, and much secondary literature, especially in recent years Robert Skidelsky's superb three volume biography of Keynes, Skidelsky (1983, 1992, 2000).

The essential characteristics of the Marshallian system as Keynes viewed it was, first, the domination of the long period and secondly, a strict distinction between the real and the money. In the real system, supposing there to be free competition, the object of the analysis was to determine long-period normal equilibrium prices and quantities, using partial equilibrium supply and demand analysis (but showing in an appendix that the same principles apply in a general equilibrium system, to wit, that equilibrium prices were, as we say now, market-clearing). The analysis was as applicable to the market for commodities as it was for those for the services of the factors of production. As for the process of accumulation, there was a supply of real saving, consumption foregone, associated with maximising expected utility choices between present and future consumption, with the rate of exchange reflecting time preference at the margin; and a demand for saving, investment, in which the technical possibilities of transforming present consumption into future consumption at the margin were the key concepts. The price which cleared this market and set the composition of the national income between consumption and saving/investment was the natural rate of interest, a real concept.

The general equilibrium version would have as a corollary the Say's Law level of long-period overall output, itself a 'simple' summation of the individual quantities of commodities (and employment) associated with the long-period market-clearing prices of each individual market. So what determined overall employment (and *zero, non-voluntary*, unemployment) was not an interesting *theoretical* question, if it were ever even to be asked: only simple summation was required.

When we come to the discussion of the determinants of the general price level – so far only *relative* prices and quantities have been discussed, neither money nor money prices played any significant analytical role – the quantity theory of money tautology could easily be turned into a theory. For if M was determined by the monetary authorities, V was given by institutions and historical customs and T was interpreted as the total of transactions associated with the Say's Law long-period equilibrium position, P remained the only unknown. Moreover, if V and T were given, changing M would, at least as a long-period tendency, change P in the same proportion. (Keynes would have expressed all this in terms of the Marshallian/Cambridge version of the quantity theory but the story is essentially the same.) Money, therefore, was only a veil in the long period.

The object of volume II of *a Principles of Economics* was to set out this basic theory, analyse the causes of fluctuations around the long-period position (the trade or business cycle) and design institutions which either allowed the economy to return as quickly as possible to the equilibrium position after a shock; or to move as painlessly as possible to a new equilibrium position if the basic real determinants of it – tastes, endowments, techniques of production – themselves changed. The essential task of the monetary authorities was to ensure that the money rate of interest was consistent with the underlying natural rate of interest which like saving

ruled the roost in the process of accumulation. This, in the crudest, simplest form, was the system on which Keynes was brought up, as he came to see it.

Because of the real/monetary dichotomy, and because he was writing on money, Keynes felt inhibited about spending time on the intricate happenings to output and employment in the short period and over the cycle, "the intricate theory of the economics of the short period". Nevertheless, in the *Tract* he recognised them and especially the evils of unemployment as well as falling prices – hence he cheeked Marshall about our mortality in the long run – but, *analytically*, he was looking for institutions and their behaviour which would give price stability and allow the economy to settle at its long-period Say's Law position. In *A Treatise on Money* he presented the famous banana plantation parable but he was unable analytically to stop the downward spiral of activity and prices until either the inhabitants had starved to death or there was an *ad hoc* change in their accumulation behaviour (Keynes 1930; 1971, *C.W.*, vol. V, 158-60). The endogenous process and its end had to wait for the publication of Kahn's multiplier article in 1931 which also contained "Mr. Meade's relation" – the derivation of the value of the multiplier by concentrating on the leakage into saving.

Keynes replaced the old system by a radically new, indeed revolutionary, system. As a Marshallian his basic tools were demand and supply functions, now aggregate ones. His emphasis was on the short period in its own right, suitably adapted for analysis of the economy overall. (This had been the emphasis, too, in Kahn's dissertation, *The Economics of the Short Period* (1929; 1989) though Kahn's analysis was microeconomic.) The dichotomy between the real and the money disappeared in both the short period and the long period (which Keynes ultimately ceased to believe to be a coherent concept in macroeconomics). Money and other financial assets and monetary institutions entered the analysis from the start (institutions were only sketched relatively to the rich analysis in *A Treatise on Money*, a deliberate choice by Keynes). Aggregate planned expenditures basically drove the system which operated in an environment of inescapable uncertainty. The latter had inescapable consequences for vital decisions, especially regarding investment expenditures and the holding of money and other financial assets and the form that they took. Investment dominated and saving responded through the consumption function, the relationship between aggregate disposable income and the distribution of income between the classes on the one hand, and planned consumption expenditure, on the other, intimately related to the (income) multiplier through the marginal propensity to consume. The amount saved (but not the form in which it was held) was treated as a residual. Investment was determined by expected profitability, on the one hand, and the money rate of interest, representing the alternative ways of holding funds (and their availability and cost), on the other. Subsequently, in 1937, finance, especially through the banking system and the stock exchange, was also to play a vital role as, *cet. par.*, the ultimate constraint on investment expenditure. The money rate of interest therefore ruled the roost and the expected rate of profit (the *mei*, the counterpart to the natural rate of interest in the old system) had to measure up to it. The money rate of interest was depicted as the price which cleared the money market by equating the demand for money with its supply, not as the (real) price which equalised desired saving and investment.

The rest state in both the short period and the long period (the latter was ultimately to become for Keynes and his closest followers but economics for economists) could be associated with involuntary unemployment – people willing to work in existing conditions but with the level of aggregate demand such as there not to be sufficient demand for their services. Nor was there any effective way for them to signal that it would be profitable to employ them; indeed, there would not be unless there were to be a rise (or an expected rise) in real expenditures. Up to full employment, the outcome in the labour market depended on what happened in the commodity market. The quantity theory was replaced as an explanation of the general price level by old-fashioned Marshallian short-period competitive pricing, suitably (or perhaps not) adapted to the economy as a whole. There were therefore at least three 180° turns between the old and the new: investment dominated saving, the commodity market dominated the labour market and the money rate of interest dominated the expected rate of profit. The forces which would make

planned accumulation even on average absorb full employment saving were unreliable and weak, not to be relied on even as tendencies. Moreover, the general price level was determined by factors other than the quantity of money.

IV

The new system was the base on which Keynes would build his theory of inflation in *How to pay for the War* (1940; 1980) and his policy proposals for the international world order in the postwar period. In his superb review article, Vines (2003), of Robert Skidelsky's third volume of his biography of Keynes, Skidelsky (2000), David Vines makes a convincing case for the proposition that Keynes provided the conceptual basis for modern international macroeconomic theory. Of course this is not to be found explicitly in *The General Theory* itself. That book was mainly concerned with a closed economy model in order to highlight the central theoretical propositions and insights of the new theory. Nor did Keynes analyse the trade cycle or long-term growth issues systematically in *The General Theory* and some of his *obita dicta* asides look rather strange now.

For most of *The General Theory* Keynes was content to discuss existence and stability propositions in the short period, focussing especially on the factors that were responsible for the point of effective demand at which aggregate demand and aggregate supply, and planned investment and planned saving (more generally, injections into and leakages from the expenditure-production-income circuit) were equalised. (He said later that if he were to write the book again he would have been more careful to separate out the fundamental factors responsible for the existence of the point of effective demand from the other set responsible for stability and reaching the point through a groping process by business people. He thought that Ralph Hawtrey had confused the two, see Keynes, *C.W.*, XIV, 27, 181-82.)

In his most stark model, one designed not so much to describe the world as is, as to bring out most simply what was at stake, he assumed, as Jan Kregel (1976) has told us, that short-term expectations concerning immediate prices, sales, costs *et al.*, were always realised and were independent of long-term expectations concerning their future courses, the ingredients most relevant for investment decisions, so that planned investment could provisionally be taken as a given and the point of effective demand established immediately. In his most sophisticated model of (the same) reality, the independence of the two sets of expectations was scrapped, the point of effective demand was not realised immediately and indeed it changed over "time" as the model of shifting equilibrium came into play. This last apparatus is in rudimentary form the starting point for the development of growth theory by Richard Kahn and Joan Robinson, Nicky Kaldor and Luigi Pasinetti and the models of cyclical growth by Kalecki (independently) and Richard Goodwin.

V

Both Marx and Keynes recognised that when financial capital was not moving in tandem with industrial and commercial capital (Marx would and Keynes would not have put it this way), malfunctioning and sometimes crises were likely to occur. Keynes set out his ideas on this in, for example, the key chapter 12 of *The General Theory* on the operation and non-operation of the stock exchange and its relationship to real accumulation and activity generally. Another key step was in his 1937 paper on the finance motive, see Keynes, *C.W.*, vol. XIV, 201-23, on how the banking system in particular holds the key to the realisation of investment plans, taking as given the state of long-term expectations. The stock exchange also has a key role because the repayment of the bank loans used to finance the setting up of investment projects, the start of the process of accumulation, depends upon the firms concerned being able subsequently to place new issues of shares and debentures at satisfactory prices. (The demand for the new issues comes, in part at least, from the placement of the new saving created by the new investment.)

The point is that finance and saving are sharply separated by their roles and place – timing – in the process of accumulation.

These ideas were subsequently developed by Hyman Minsky in particular, writing under the rubric of his financial instability hypothesis. Minsky spelt out ideas, perhaps more implicit in Keynes's and Dennis Robertson's writings, that the natural, probably inescapable, cyclical movements on the real side of the economy can be enhanced both upwards and downwards by events in the financial aspects of the economic process, resulting in the greater amplitudes of the actual cycles experienced by economies. Minsky stressed the feedbacks associated with the disparities between expected cash flows and actual or realised cash flows in the accumulation/production process, on how non-realisation acts on confidence and expectations, enlargening the boom, at least in its early stages, accelerating the downturn and deepening and prolonging the subsequent recession or depression.²

VI

As well as pointing out the implications of disparities in the progress of finance capital in relation to commercial and industrial capital, Marx's analysis of the inherent contradictions in capitalism are of immediate relevance for our purposes in this paper. Unlike Keynes and, to a lesser extent, Kalecki, Marx made a clear distinction between happenings in the sphere of production, on the one hand, and happenings in the sphere of distribution and exchange, on the other. As far as the possibility of and limits to accumulation are concerned, it is conditions in the sphere of production – the length and intensity of the working day, the state of the class war between capital and labour, employer and employee – that ultimately determine the size of the potential surplus created for the realisation of profits and for future accumulation. Whether this potential is realised or not, though, depends upon happenings in the other sphere of distribution and exchange. It is here that Keynes, Kalecki and developments based on their contributions come into play: the combination of the theories of investment and of the distribution of income determined by the expanded version of the theory of effective demand decides how much of the potential surplus is realised in actual profits and accumulation, see, for example, Harris (1975; 1978).

These ideas help to explain one of the paradoxes of recent decades. Monetarism has rightly been called by the late Thomas Balogh (1982) "the incomes policy of Karl Marx". Ostensibly, the theory was meant to justify policies designed to rid the system of inflationary tendencies. In fact, it was associated with the attempt to swing the balance of economic, social and political power back from labour to capital. (The reverse swing had occurred cumulatively in many advanced capitalist economies during the years of the long boom.) The means to this end was the recreation of the reserve army of labour, so making the sack an effective weapon again and creating cowed and quiescent workforces and greater potential surpluses for national and, increasingly, international capital accumulation.

What was not realised was that the emergence of heavy and sustained unemployment, initially ostensibly to push short-run rates of unemployment above so-called natural rates and then let them converge on natural rates where inflation could be sustained at steady rates and accelerating rates of inflation would be things of the past, would simultaneously have such an adverse effect on what Keynes called the "animal spirits" of business people, the ultimate determinants of rates of accumulation. Hence we have had decades in many economies in which inflation has been drastically reduced yet accumulation has been sluggish, certainly well below the levels needed to offset full employment saving and the levels achieved during the years of the long boom itself. In those countries where this had *not* occurred, despised Keynesian policies have continued to be used, sometimes unintelligent ones such as those implemented, for example, during the last six years of Ronald Reagan's Presidency in the USA and now by President Bush the Second.

Since attaining full employment by the use of fiscal policies was no longer on the agenda in the former countries and monetary policies were mainly directed at general price levels and exchange rates, contractionary forces were widely prevalent in these countries, as the politicians and their advisors waited (or said they were) in vain while the impersonal forces of competitive markets allied with monetarist rules allowed the economies to seek and find their natural rates.

VII

I think it is fair to say that Keynes never completely threw off the vision of the working of economies in terms of an equilibrium framework. He did, of course, argue that government intervention was needed to help attain a satisfactory full employment equilibrium (internal balance) in each economy – left alone, less satisfactory equilibria or rest states would emerge. This was an essential step towards equilibrium associated with external balance in the international system and the possibility then to take advantage of the classical principles of free trade on which he had been brought up. (Skidelsky (1992, xv) called him “the last of the great English liberals”.) The proposals he put forward at Bretton Woods were designed to provide the institutions and the orders of magnitude of, for example, the provision of liquidity that would make all this possible. That the Americans, principally thorough Harry Dexter White, won out on both the institutions and the orders of magnitude adopted for the post-war period was a tragedy; for this ensured that the Bretton Woods system contained within it the seeds of its own eventual destruction from its very inception. (How Marx would have laughed!)

One of the major changes in vision since Keynes’s death about how markets, economies, even whole systems work, associated with Keynes’s followers, especially Kaldor and Joan Robinson, is the concept of cumulative causation. The concept has its origins in Adam Smith (what has not?) and was brought into prominence in the modern era by Allyn Young, Kaldor’s teacher at the LSE, and subsequently championed by Kaldor and independently by Gunnar Myrdal, especially in their post-war writings. The way I illustrate the essential idea of the concept for my students is through the analogy of a wolf pack (I am not a zoologist so I may be completely wrong about how wolves behave; but as I am an economist, at least I think so, let us assume I am right). There are two major views on the workings of markets, economies, whole systems. The dominant one is that akin to a wolf pack running along. If one or more wolves get ahead or fall behind, powerful forces come into play which return them to the pack. (The parallels with the existence of an equilibrium that is stable, and that the forces responsible for existence are independent of those responsible for stability are, I hope, obvious.) The other view has the forces acting on the wolves who get ahead or fall behind make them get further and further ahead or fall further and further behind, at least for long periods of time. This view captures the notion of virtuous or vile processes of cumulative causation. My contention is that, according to which view is “correct”, makes a drastic difference to our understanding of the world and how specific policies may be perceived, recommended and evaluated.

I illustrate with an example, the case for freely floating exchange rates. A classic paper arguing for them is by Milton Friedman (1953). Underlying his argument is the first wolf pack analogy, that in a competitive setting there exists a set of long-period stable equilibrium exchange rates that quickly would be found and then kept by a free float. Moreover, in this setting the systemic effects of speculation would be beneficial, for speculators with their superior knowledge, intelligence and information would help the system to reach the equilibrium pattern more quickly than in their absence and then sustain it there.

But suppose that the second wolf pack analogy is the correct or at least more correct description of how foreign exchange markets work. Then there is no set of stable equilibrium exchange rates “out there” waiting to be found and now a float combined with speculative activity will be systemically harmful, accelerating the movements away in both directions of exchange rates from one another and also of systems, at least for long periods of time. I submit that the second scenario is more akin to what has happened over much of recent decades, and provides

a rationale for various schemes suggested to curb the action of speculators. (My own suggestions may be found in Harcourt (1994; 1995; 2001b). I had generalised the Tobin tax proposal without, I must confess, being aware at the time of its existence!)

It is not only in markets characterised by cumulative causation processes that speculation may be systemically harmful. Any market in which stocks dominate flows and expectations about the behaviour of other participants in the market dominate the more usual economic factors – preferences, cost of production – in the setting of prices may experience periods when speculation is harmful. (The seminal and classic paper on this is Kaldor (1939).) An obvious example is the stock exchange. On this we may recall Keynes's famous description in Chapter 12 of *The General Theory* of what may happen when "enterprise becomes a bubble on a whirlpool of speculation", Keynes (1936; *C.W.*, vol. VII, 1973, 159).

VIII

Let me close with another example of how Keynes and Keynesian/Kaleckian/Marxian ideas are still relevant for both our understanding and policy making. The ideas I present now are based on Kalecki's famous 1943 paper, "Political aspects of full employment" and the writings of my two greatest Australian mentors, the late Eric Russell and the late Wilfred Salter, both devoted Keynesians, see Harcourt (1997; 2001b) for the arguments and references.

Kalecki set out graphically the vital difference between the political economy of getting to full employment after a deep slump, when all classes are in favour of this, the wage-earners in order to get jobs, business people in order to receive higher profits, the government in order to reduce the risk of serious social unrest, on the one hand, and the political economy of sustaining full employment, on the other hand. In the second situation, as I argued above, cumulatively economic, social and political power shifts from capital to labour. The capitalist class, indeed conservative elements generally, get more and more uneasy about the emerging situation. An environment is created in which, for example, monetarist ideas will be well received, and more than one economist will be prepared to be a hired prize fighter in support of them as government (and central bank) actions.

Is there a possible answer to this, on the face of it, inescapable dilemma in our sorts of economies? Keynes and his followers recognized that attaining and then maintaining full employment would carry with it cumulatively rising risks of inflationary pressures associated with rising money-wage demands. It is no accident that Joan Robinson always said that from 1936 on, "Incomes Policy" was her middle name, a perceptive insight no doubt reinforced by having an actual middle name of Violet. Russell and Salter recognized this dilemma and argued in Australia for a full employment policy that included an incomes policy implemented through our centralised wage fixing body (then the Australian Arbitration Commission). In broad outline, at a starting point, money incomes were to be adjusted periodically for changes in prices and in *overall* productivity. Not only is this adjustment equitable, it is also efficient.

It is equitable because at the level of the economy as a whole, capital and labour are complements and the impact of their combined activity on overall productivity ought to be reflected in changes in the *real* incomes of all citizens. It is efficient because with full employment, such an overall policy discourages low productivity, often declining industries whose time has passed and encourages high productivity, often expanding industries whose time has come. The result is a regime with higher increases in overall productivity than would occur otherwise, certainly than would occur in a regime characterised by so-called flexible markets, such as are the UK's and the USA's pride and joy. There would be therefore an agreeable *quid pro quo* for money income restraint in the form of rising real incomes, so providing a possible solution to Kalecki's dilemma. There are, of course, all sorts of qualifications and modifications and exceptions to the starting rule – I discuss these in the article referred to above. Here I wanted to set out the core argument as starkly as possible.

IX

In conclusion, may I say that Keynes and his ideas are still alive and well; that subsequent developments by others complement agreeably his own revolutionary contributions; and that people of good will who wish to see established just and equitable societies world-wide have in these ideas an essential starting point?

End Notes

* A lecture given at the conference on “Keynes and after”, held at the Faculty of Economics and Business Administration, University of Iceland, Reykjavik, on 10 October 2003.

1. In a letter to Keynes (28.6.1928) when he submitted the article to the *Economic Journal*, he wrote: “Of course the whole thing is a waste of time”. It had distracted him from “a book on logic ... [because] it [was] much easier to concentrate on than philosophy and the difficulties that arise rather [obsessed him]”
2. For some policy implications of Minsky’s insights, see Harcourt (2001a), ch. 15.

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The Riddle of Consumption

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Shaun Hargreaves Heap recently reminded us (PAER no. 26, 2 August 2004) that *The Affluent Society* raises an issue as important today as when Galbraith wrote nearly fifty years ago. Why do consumers want ever more goods and services when the evidence suggests that more consumption delivers no greater happiness? Heap praises, discusses, and adds to Galbraith's explanations for this riddle of consumption or what might better be called the fetishism of consumption. However, neither Galbraith nor Heap recognize, let alone discuss, one solution to the riddle derived from Marx's theory of exploitation. Indeed, capitalist exploitation helps to explain not only the fetishization of consumption, but also neoclassical theory's parallel need to ascribe disutility to labor and a compensatory utility to consumption.

Galbraith and Heap are troubled deeply by the spectacle of endlessly rising consumption spending, by the acquisitive value system it reflects and reinforces, and by the negative social effects flowing from both ever-rising consumption and that value system. The fetishization of consumption strikes them as a serious social problem. It undercuts the happiness of consumers, threatens the environment, and increasingly dominates public services and especially education which they believe could and should be sources of different, preferable value systems. Galbraith and Heap explain ever-rising consumption as the effect mostly of qualities they believe to be intrinsic to modern individuals. For example, people derive utility from consumer goods in terms of their relative – not their absolute – consumption. As others' consumption grows, so too must theirs, thereby generating an endless rise of consumption. Similarly, people are vulnerable to advertising and mass media that generate ever new desires and tastes. Today's desires reflect yesterday's circumstances of the past; because former generations scrambled for subsistence, people keep buying long after subsistence is no longer an issue. The conventional wisdom that more consumer goods and services is always better than fewer endures, notwithstanding all the contrary evidence, because belief in conventional wisdoms is a human predilection. Extending Galbraith's psychological explanations, Heap stresses modern identity insecurity. Because their personal identities are now fluid and hence insecure, people turn to consumption as the means to define and refine individual identities.

Galbraith and Heap do cite one cause for endless increase in consumption that is not a matter of individual psychology. Because rising consumption keeps the masses employed, it brings ever more people out of absolute poverty. This secures "social harmony" by "mitigating" the social tensions bred by "social inequality." While both Galbraith and Heap are vague on this point, it does represent the germ of a social (dare one say "objective") rather than personal, psychological (dare one say "subjective") theory to explain ever-rising consumption. However, why settle for a germ when a much more developed and nuanced social theory of rising consumption is available from classical political economy and especially from Marx?

John Locke argued that post-feudal European society could work well, despite the loss of social controls operated by absolutist feudal hierarchies, if each worker disposed of only as much land as that worker could farm. He, Thomas Jefferson, and others believed that social inequalities bred social tensions which risked degeneration into civil chaos or regression back to feudal absolutism. The tensions could be avoided if production exhibited a rough equality of labor, means of labor, and hence reward from labor across individuals. However, the actually existing capitalism that came increasingly to prevail in post-feudal Europe generated growing inequality (Adam Smith's accumulation of land and stock). Capitalism thus risked social catastrophe and self-destruction unless it could somehow "mitigate" the rising inequality between, speaking broadly, capital and labor. Smith's idea was that capitalism might mitigate deepening inequality by raising consumption. Put bluntly, workers falling ever further behind and below capitalists in terms of wealth, income, power, and culture, might accept that if they enjoyed an ever-rising level of

personal consumption. For generations of capitalism's champions, it thus became axiomatic that a secure capitalism is one that delivers a rising standard of consumption to its working classes. Crises threaten not because rising inequality attends capitalist development, but only when that inequality is not compensated by rising worker consumption.

Marx's theory of capitalist exploitation developed Smith's idea further and in new directions. In the theory of *relative surplus value* presented in *Capital vol. 1*, Marx showed how competition among capitalist firms within each industry typically generated a secular fall in the value per unit of each industry's output. That meant, in Marx's mathematical model, that the value of labor power would fall since each item in the worker's consumption bundle contained less value. Assuming workers labored the same number of hours and thereby produced the same value added, the fall in the value of their labor power left a greater mass and rate of surplus value for their capitalist employers. In short, more of the value added by laborers accrued as surplus to their employers as less was returned to them as wages; the exploitation of labor rose. The real wages of workers remained the same because the reduced value of their wages matched the reduced value per unit of the consumer goods they purchased. Marx concluded that capitalism thus displayed a remarkable self-reinforcing mechanism: each capitalist's need for more surplus generated a competition that provided it for all capitalists.

Marx recognized, however, that this happy circumstance for capitalists required that workers accept a rising rate of exploitation and its consequences: rising social disparities between workers' and capitalists' wealth, income, power, and culture. If, as Marx no doubt hoped, workers resented exploitation per se and its increase still more, the old problem of inequality generating social conflict could resurface with a vengeance. Marx's argument implies the two parts that a solution to this capitalist problem would require. First, the value of labor power should not fall as much as the unit values of consumer commodities fell, thereby enabling a rise in real wages. So long as the value of labor power falls, the mass and rate of surplus value rises to the benefit of all capitalists. Exploitation can thus increase while workers also enjoy a rising standard of consumption. However, this part of the solution is not, by itself, sufficient. Rising exploitation still entails the same set of deepening inequalities that worried the classicals. Thus the need for the second part of the solution: workers must care much more about their own level of consumption than about exploitation, rising exploitation, and deepening social inequality.

Modern capitalism, in those areas where it is the most secure, reflects the successful combination of both parts of this solution. Exploitation rises to the benefit of capitalists, while real wages also rise **and** workers focus on rising consumption as the point and purpose of their work. They measure the tolerability of their labor by the adequacy of its compensation in terms of consumption. At a minimum, workers accept exploitation and its social consequences because they are compensated by consumption. Better still, for capitalism's survival, workers may come to believe that exploitation does not (or no longer) exist, so that consumption can be viewed as the compensation simply for labor activity itself.

For successful modern capitalisms, then, real wages must rise tendentially and workers must be ceaselessly reinforced to believe that rising consumption is the adequate, appropriate reward for their productive efforts. In contrast, unsuccessful capitalisms are those who do not deliver rising consumption or who cannot persuade their workers that rising consumption is all that should matter in relation to their work. In this persuasion, neo-classical economic theory plays a central role. It teaches that work necessarily entails an intrinsic disutility compared to consumption which is an intrinsic utility. Work's intrinsic disutility flows from exertions of mind and muscle (as opposed to "leisure"). Each worker rationally balances, at the margin, the disutility of those exertions against the utility of the consumption enabled by the worker's income (revenue from those exertions). Rationality for workers is defined so as to exclude any thought or action in regard to exploitation and its social effects. Indeed, neoclassical economics teaches, contra Marx, that exploitation does not (or no longer) exist; there is no surplus in production. To the extent that neoclassical economics informs journalists, politicians, school-teachers, ministers and others, it organizes the persuasion needed to secure capitalism's rising rates of exploitation and the social

inequalities thereby deepened.

Marx thus offers a different explanation for the seemingly endless rise in consumption from those discussed by Galbraith and Heap. They profess to be mystified as to why people demand more consumption even though it does not make them “happier” and they resort to rather simplistic psychological explanations for that demand. In contrast, Marx’s theory of relative surplus value explains why rising real wages are possible, why they can occur as a consequence of capitalist competition, and why, in successful capitalisms, they are accompanied by a consciousness that ever more consumption is better. For Marx, it is a matter less of intrinsic human psychology than of an attempt to manage the deepening inequalities of capitalism.

Such management would fail if workers recognized exploitation and its social effects and refused to accept personal consumption as adequate compensation for them. It would fail if workers reacted to the disutility of their labor by demanding that the quality of their labor activity be changed by ending exploitation (rather than or in addition to demanding that their consumption be increased). It would fail if workers stopped believing that more consumption is better and focused instead on changing the social conditions of consumption by, among other measures, eradicating exploitation.

This analysis of rising consumption as a means of managing the social effects of rising exploitation implies a Marxist critique of both environmentalism and of socialist politics focused on raising workers’ wages. On the one hand, environmentalism effectively questions rising consumption by stressing its *disutilities*. However, in so far as that recognition remains disconnected from Marx’s larger argument about exploitation and rising consumption, environmentalism’s impact will be constrained and undermined. On the one hand, socialists’ focus on raising wages and consumption standards mobilizes workers around immediate needs. However, in so far as that focus subordinates or disconnects from Marx’s central opposition to exploitation within production, socialists risk becoming inadvertent adjuncts to capitalism’s successful management of rising exploitation and its social effects.

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Fisheries management: Hijacked by neoliberal economics*

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This is a story about a fashionable political-economic ideology that has taken over the management of many fisheries. It happened as a matter-of-fact offshoot, sort of by-catch, of the neoliberal or neoclassical paradigm.

In the beginning fish were aplenty and there were no rules upon the face of the deep, and the spirit of free access moved upon the waters. And the fishermen saw that it was good and fished as many fishes as they needed to feed their families and their neighbors.

But people were multiplying and replenishing the earth, and more and more fishermen had to catch more and more fish to meet the demand of the ever-growing humanity.

And governments said: let there be management, so that there would always be enough fish left in the seas to procreate. And they limited the gear, the vessels' size and numbers, the duration of fishing seasons, and the access to some fishing areas, and they called it input or effort regulation.

But, the fishermen kept fishing and their fleets kept growing, and the governments saw that it was bad. So the governments made the licenses, and their scientists thought up the "maximum sustainable yield" (MSY), which was the amount of fish that could be safely extracted, and they made the "total allowable catch" (TAC) for each sort of fish in the sea. But the fishermen kept competing, and over-capitalizing, and the fish became scarce.

And the economists said unto the governments: let there be property rights. And they spawned "individual transferable quotas" (ITQs), which were rights to catch the given quota of fish that the fishermen could buy from each other. And they believed that it is good and said unto the fishermen: Behold, rights' privatization is your salvation. And the governments sent the ITQs upon waters to replenish the seas and subdue all fisheries. And it was good.

This is more or less the gospel, which prevails throughout fisheries administrations in many countries. It made some people richer and so they became its devoted believers and supporters, while the many made poorer, or afraid to become so - its adamant opponents. And in almost every single case the consequence is continuing concentration of fishing rights in fewer and fewer hands, often enough in the hands of major corporate interests, at the expense of small-scale, family, and skipper-owned fishing operations of one or two small or even medium-sized fishing vessels.

Fisheries management is supposed to look after the health of the fish resources exploited by fishermen. This requires knowledge of fishery biology and ecology, population dynamics, and historical data of the fishery and of environmental and associated stock fluctuations in its area. As fisheries management can only manage people, it entails negotiations, legislation, technology, and enforcement. There's a whole catalogue of management systems and technical and administrative methods that managers can use to try to achieve their targets.

Traditional management replaced. Old-type management by tribal and community leaders and local fisherfolk's organizations based on traditional knowledge of the resource and traditional justice, is now almost totally extinct. It has been replaced throughout most of the world by bureaucratic and technocratic mechanisms heavily influenced by political and economic considerations that, while interested in fish as marketable merchandise and a source of profits to the operators, have only little to do with safeguarding the resource as a source of income to fishing people. Fisheries management has thus become a power play over benefits from the resource. Stakeholders are many, starting with fishing people and local interests in fishing

communities, through recreational fishermen, environmental lobbies and coastal development interests, and ending with powerful corporations and market forces, whether local, national, or multinational.

The political attitude of the powers in charge determines the choice of the management system and how it is applied through licensing that controls fishing capacity, quotas allocation, or limits set on effort. The system chosen determines the distribution of the benefits derived from the resource to the different stakeholders. For example, allocating fishing rights (and hence benefits) to a large number of small-scale fishermen would call for different management methods than allocating them to a large company.

Neoliberal economics invaded management of various commons and national resources as an extension of a dominant paradigm - though very much at issue - in the industrialized world. Its gospel is being spread over the world and its political, financial, and academic institutions by troops of disciplined economists, rewarded for devotion, and punished for dissent. So, what is this neoliberal or neoclassical teaching in economics that has also impinged on fisheries? And on what basis are its devoted adherents preaching that theirs is the only way society can take to utilize its fish resources in a feasible and efficient manner?

The old "classical" economic teaching has introduced the belief in the "invisible hand" guiding rational individual decisions driven by self-interest eventually into an optimum economy, in which free market forces are taking care of all aspects of peoples' life. An implied outcome of such "free play" is that any financial profit derived from a common, fully, partly, or quasi-privatized resource, would somehow trickle down and redistribute itself all over the society. But this is a myth and a fallacious contention, if not an outright lie. It is common knowledge that, in most of the world's countries, a big share of such benefits indeed trickles down, but to various investments abroad, and to imported luxury products and services. The "trickle down" theory can approach the real situation only in a few rich countries, where profits feel secure and investments promise further accumulation of capital.

Criticism. Recently, more and more economists and other social scientists started casting doubt on the neoclassical gospel, nicknamed by some "autistic economics". Awarding the 2002 Nobel Prize in economics to two professors, one of them a psychologist, who refuted the theory that, as a rule, individuals make rational economic decisions, reflected this growing criticism. Economic determinism inherent in the neoliberal theory doesn't work; the markets' reaction to prices, the prices' reaction to the dynamics of supply and demand, and peoples' reactions and economical activities don't fit that theory's assumptions. Hence, its weakness in economic analysis and forecasting.

Some economists and other social scientists argue that, contrary to its pretense to scientific, objective approach, neoclassical economics is in fact a social-political narrative and a methodology used by global economic and political interests to concentrate power in the hands of corporate national and multi-national institutions. Thus, individual businessmen and small and medium-scale private enterprises, not to speak of wage earners, are losing their influence on socio-economic decision-making to powerful commercial-industrial centres and their collaborators in governments.

This transfer of power is promoted, legislated, and executed through democratic processes occurring within the existing legal framework with the help of well financed journalistic and media campaigns and more or less biased scientific publications, with the neoclassical economic narrative serving as a tool for achieving explicit goals as well as hidden agendas of its promoters. Thus, the "invisible hand" has been transformed from the sum of the multitude of individual decisions into the sum of the political and economic decisions of powerful interests.

Profit maximization. Neoclassical economics are supposed to aim at and produce maximization of *social and national benefits*, which in fact are dollar equivalent measures of how economists

value goods and services (including non-market goods and services). It preaches maximization of profits or rents often attained at the expense of heavy social costs. The big question is how these costs and benefits are defined and calculated; since social costs are very difficult to estimate, any portrayal of economics as an absolute, scientific methodology is simply fallacious, and honest economists admit that they cannot adequately calculate all social benefits and all social costs.

It is obvious that losses incurred through forfeiture of alternative actions, and due to various social, and other external costs, many of which cannot be evaluated in terms of dollars and cents are a part and parcel of any economy. As long as we are not taking into account all the costs and benefits resulting from production and market fluctuations, various management steps, defaults to act, social, economic, and cultural dislocations of people and their ramifications affecting coastal communities, as well as other "externalities" difficult to express in monetary terms, we are unable to calculate true net social costs and benefits.

Social benefits. Many people associate the term "social benefits" with how benefits derived from national resources are distributed across the society. They ask, for example, how many people make a living from a certain resource. A "less efficient" small-scale fishery that employs many more people than an "efficient" big-owner fleet, may feed less monies to the "national purse", but as a rule is directly and effectively more beneficial to people and their communities. Only an in-depth analysis can establish which option would produce truer national benefit values. Thus, it is quite consequential who defines national and social benefits, and how.

For example, calculation of net national benefits for an industrial shrimp fishery in a non-industrial country must include a deduction of the costs of all imports, such as expatriate manpower, fuel and lubricants, vessels, deck and propulsion machinery, processing and refrigeration equipment, and fishing gear, as well as insurance and maintenance costs incurred in foreign-currency. In some cases, the only net benefits from an industrial shrimp fishery in such countries are the revenues from license fees and the employment of nationals, while a major share of the proceeds for the shrimp exported is going abroad, along with the product.

Policy costs. Therefore, responsible resource managers along with responsible economists must openly account also for the values that are non-financial/commercial, and the diverse peripheral socio-economic, political and cultural costs, as well as the taxpayer's money needed for dealing with human problems resulting from management decisions. Only then would the society and its governments be informed of the *true costs* of any policy proposition leading to allocating their natural resources into the hands of a few. Nowadays, such transfers are facilitated by governments' obsession with privatization as a panacea to all maladies of the economy.

The neo-liberal gospel preaches that practically nothing can work efficiently, if it is not somebody's private or corporate property. The massive ideological privatization practiced in some countries has embraced also such natural resources, as water, forests, various energy sources, and public transport. Even economically viable, and efficiently run national resources are often falling victim to the privatization Moloch. How wrong this ideology can be has been recently well illustrated by a whole series of flops of some mammoth privatized and corporate companies, due to both, mismanagement and corruption, as well as by the rather disappointing results of the privatization of the British railway system. "Swissair", "PanAm", "Enron", and other recent bankrupt giants have not been run by governments.

One consequence of the domination of neoclassical economics is the rather obscure struggle between *free enterprise* and *corporate interests*. In the past, the conception of capitalism and free market used to emphasize private initiative. Nowadays, however, it isn't necessarily so. The neoclassical economics is leading to a regime in which major businesses and corporations are gradually displacing smaller-scale enterprises and businessmen, and which is indifferent towards the social conditions of working people. It is "happy" when supply of labour exceeds demand, because unemployment depresses wages and improves profits.

Sometime ago, after the demise of the Soviet system, one would think that free enterprise had won. One is not so sure nowadays. Like the Soviet monopolistic concerns, some of the giant companies of the "capitalist" world are run by exploitative bureaucracies supported by ideological economists, who seem to consider small and family-owned enterprises a noise and a nuisance in their concept of "economically efficient" world.

Invasion. The invasion of fisheries by the neoclassical economics has been a logical consequence to its domination of the global, and many national economies. Like many historical invasions, it was partly invited from inside the fisheries and given a friendly reception by large-scale interests and their proxies in the management mechanisms. Once in, it seems to be here to stay, especially in all those countries where, for various reasons, it is not met with strong opposition.

What brought this ideology into the fisheries is its claim that privatization is the most efficient, if not the only mode of exploiting a resource. This, even if the resource belongs to the whole nation, as is the case with water, forests and, for that matter, fish in the sea.

Input control. When, following the Second World War, the spiraling growth of fisheries brought about the need for management, it was initially based on, so called, "input control". This implies regulation of fishing effort through such means as limited access, fishing time and areas, as well as other regulations that try to follow biological characteristics of the species involved. In some countries this management system still works well enough, in others it has been deemed, rightly or wrongly, inadequate. Fish population dynamics models have been used to estimate the biomass of fish populations and, consequently, the fixing of TACs. In some fisheries this led to highly competitive "gold rush" fishing operations and investment in excessively strong and fast vessels. The next step was dividing the TAC into quotas that were allocated to vessels, usually, according to their fishing history. And this was the moment when the neo-liberal economists stepped in with a new pattern: marketable fishing quotas (ITQ).

Property rights. They axiomatically promoted a theory that property rights and maximum benefit and efficiency spelled out in financial terms are a must for rational exploitation of fish resources. Since property rights are characterized by (i) security, or quality of title; (ii) exclusivity; (iii) permanence, and (iv) transferability, their application in fisheries boils down to ITQs. Thus, mere "fishing rights" have become "private property rights".

But trade in fishing rights eventually must hit the weaker stakeholder. Initially, the richer vessel owners or their covert sponsors accumulate quotas by buying off the weakest boat owners. Governments enhance the process by allocating individual quotas too small to pay a single vessel owner's way out of the red, on one hand, and by pricing licenses and quota entitlements above the value of his/her fishing boat and gear, on the other. A quota gone from a fishing community is gone forever, together with all the associated jobs, services, and income. If it were not for social opposition, a worldwide adoption of ITQs would have proceeded faster.

Concentration. Since marketable quota systems favour the financially stronger, they invariably lead to a gradual displacement of small-scale individual or family-owned fishing enterprises, and sooner or later to the concentration of fishing rights in the hands of a few, either specialized fishing companies, or large holding corporations for whom fishing may be only one branch of a multifarious business. Such concentration eventually would occur even where there are legislative attempts at stipulating acquisition of quota by some maximum values. Hence, there is a growing concern of "privatization by stealth".

It is incredible that managers introducing this system into small-scale or mixed fisheries would be unaware that its social, economic, and political ramifications favour large-scale business at the expense of local fisheries and processing industries, and small-scale operators, and threaten the survival of the small-scale fishing sector. ITQs tend to depress artisans and effectively exclude part-time participants in local fisheries, favour the owners, while disregarding

crewmembers. Hence, selection of ITQ for such fisheries must reflect the political and social attitudes of the respective government.

Green non-governmental organizations (NGOs) have willy-nilly contributed to the privatization trend. Although some of them, as for example Greenpeace, have joined protests against the tradable quotas system, there have been NGOs' with often-exaggerated and sometimes even fallacious alarmist publications as to the state of fishery resources painting fishermen as the main culprits, which fuelled the neoclassical economists' fires. ITQ advocates have claimed that only management systems based on that or other forms of resource privatization would maintain fish stocks on sustainable levels.

Their main argument was: "If fishing interests are allowed to invest in a permanent share of the TAC, so that they'd be sure of their relative share in the landings of the respective species from a given area, they wouldn't need to apply the "gold-rush" mode of operation, and would be interested in maintaining the resource in an everlastingly sustainable condition". This argument, however, is irrelevant in the great majority of cases where the "gold-rush" condition is absent.

Notwithstanding, ITQs are a rather peculiar sort of property rights: fishermen must pay sometimes quite heavily for the right to catch a certain amount of fish, without knowing whether they'll be able to get it and at what operational cost. They don't really control the resource and don't know whether by observing the rules and sticking to the quota they won't be made suckers by others. Hence, the well-intended potential stewardship over the resources by quota-owners is, in fact, more often frustrated by high grading, fish dumping, and quota busting. While ITQs indeed mitigated the "gold-rush" fishing, and their contribution to stock conservation might have happened in a few fisheries, it has been proved so only in a couple of them. At the same time, many failures have been reported and documented.

Small under siege. The ITQ-system would be socially and nationally justifiable mainly on high seas, where the resource is technically not accessible to small and middle-scale operators based on coastal fishing communities, and where exploitation of the resource requires large-scale industrial fishing vessels and fleet-logistics. But small-scale operators, who traditionally exploit inshore and coastal resources, predominantly consider marketable quotas socially and also economically wrong. Harvesting methods that are most efficient in financial terms are often the ones with the worst collateral (including environmental) impact, while less capital-intensive and technologically and operationally sophisticated fishing methods normally allow wider and much more equitable access to benefits from the fishery, with less negative environmental and social impacts.

In Third World countries, for example, traditional and other coastal fisheries operate under many stresses, the main one being invasion of larger-scale fisheries into waters and stocks accessible to and fishable by small scale fishermen, often with official government support or high-circles' well-paid "closing of the eye". But, in such areas, large-scale operations are by most criteria less *efficient* than small-scale fishing. They consume several times more fuel per each tonne of marketable fish than the small-boat fishery, their capital investment in gear and vessels is much higher, and they produce fewer *true national benefits*. The same fish stock that can be fully and profitably exploited by 10 trawlers manned by 100 people, if allocated exclusively to coastal fisherfolk using nets, pots, and hooks-and-lines, may provide living to many hundreds, or maybe thousands of them, never mind how low their calculated profits are going to be.

In many areas, both recreational and small-scale commercial fisheries form the backbone of coastal communities whose economies revolve around fishing. It causes money to flow to equipment and bait, food and fuel suppliers, boatyards, and a variety of commercial and technical services in docks, harbours and marinas, as well as those sectors of the tourist industry that are centered on fishing communities.

Hidden agendas. No doubt that management decisions depend first at all on the prevailing

policy objectives. Different governments and the powers that influence them may have different, above-board and hidden agendas. Hence, worldwide, there's no consensus on the objectives of fisheries management. Some governments may believe that the only or main objective is to maintain a financially most profitable fishery. Other may consider that, apart from supplying fish to the market, an important goal is safeguarding the well being of communities, where fishery is an important contributor to the local and, thus, national economy. "Safeguarding the well-being" means creating and maintaining conditions that would enable fishing industry adequate return on investment, and fishing people, sufficient take-home income. It also may mean that in certain special circumstances, the State may have to intervene to help a community over a temporary hardship, as it would do for farmers hit by a drought year, or an industrial community hit by an earthquake. Isn't it what governments are for: collecting taxes, providing services, and helping in trouble?

Subsidies. Some governments, as well as most global, transnational, and intergovernmental financial institutions are driven by the neoclassical ideology, especially when it comes to economic relations with developing nations. Undeniably, some of the conditions of economic cooperation and assistance imposed by those institutions stem from their wish to protect their investments from misconduct, corruption, and mismanagement. But, only too often, under the hypocritical pretext of securing free market and economic liberalization, their conditions are simply a tool of protectionism. And here we come to fisheries subsidies. The USA, the EU and some other developed countries, in view of the heavy overcapitalisation of their fishing fleets, came to the quite appropriate decision to stop subsidizing construction of fishing vessels. They want, however, to have their new policies "globalized" to cover also the developing world.

A number of developing countries have had for many years too large national fleets, and they as well should not subsidize overcapacity. However, any international agreement involving fishery subsidies should take into account small-scale fishermen, who have to compete over their local fish resources against large-scale fishing fleets that are allowed to fish, or just poach on their native, traditional fishing grounds. Such fleets are subsidized, almost as a rule, whether directly or in a roundabout manner, as are the EU payments for access to fishing grounds of Third World nations. Small-scale fisherfolks operating under such conditions deserve support both on the part of their own respective governments, as well as of the international community. Would it be too much to ask WTO, EU, and individual governments of countries whose fleets are out to exploit coastal fish stocks of their own or other countries, as well as the governments who allow such fleets into their coastal waters, to give them a fighting chance?

Joining forces. Fisherfolk in the small and medium scale sectors both, owners and hired hands faced with dislocation from their traditional fisheries by management systems based on marketable fishing rights, should recognize that their main adversaries are the standard bearers of the neoclassical economics in national and transnational financial institutions and corporations, and their proxies in fisheries management. It is very difficult to resist such powerful interests in democratic societies without joining forces. For this purpose, provincial, national, and regional fishermen's associations should organize under common umbrellas. Also international associations of fishing people should create a joint worldwide umbrella that without affecting their respective structure and character, would enable them to board the globalization train in weight and force.

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PAE in the News: from *Adbusters*, Sep/Oct 2004

Post-Autistic Economics:

What economics students in three countries are doing to put their professors on the defensive

Deborah Campbell* (Canada)

France

The university-aged children of France's ruling class ought to have been contentedly biding their time. They were, after all, destined to move into the high-powered positions reserved for graduates of the elite *École Normale Supérieure* (ENS). "The ENS is for the very good students, and the very good students aren't afraid to ask questions," says Sorbonne economist Bernard Geurrien.

In Spring 2000 he addressed a conference on the disconnect between mainstream neoclassical economics instruction and reality. Economics has an ideological function, he told them, to put forth the idea that the markets will resolve everything. In fact, he added, economic theory absolutely doesn't show that.

A group of economics students, their worst fears confirmed, approached Geurrien eager to "do something." A week later, 15 of them gathered in a classroom to hash out a plan of attack. Someone called the reigning neoclassical dogma "autistic!" The analogy would stick: like sufferers of autism, the field of economics was intelligent but obsessive, narrowly focussed, and cut off from the outside world.

By June, their outrage had coalesced into a petition signed by hundreds of students demanding reform within economics teaching, which they said had become enthralled with complex mathematical models that only operate in conditions that don't exist. "We wish to escape from imaginary worlds!" they declared. Networking through the internet and reaching the media through powerful family connections, they made their case.

"Call to teachers: wake up before it's too late!" they demanded. "We no longer want to have this autistic science imposed on us." They decried an excessive reliance on mathematics "as an end in itself," and called for a plurality of approaches.

With that, 'autisme-économie,' the post-autistic economics (PAE) movement, was born.

Their revolutionary arguments created an earthquake in the French media, beginning with a report in *Le Monde* that sent a chill through the academic establishment. Several prominent economists voiced support and a professors' petition followed. The French government, no doubt recalling the revolutionary moment of May 1968, when students led a 10-day general strike that rocked the republic to its foundations, promptly set up a special commission to investigate. It was headed by leading economist Jean-Paul Fitoussi, who also traveled to Madrid to address Spain's nascent "post-autistic" student movement. Fitoussi's findings: the rebels had a cause. Most important to the PAE, Fitoussi agreed to propose new courses oriented to "the big problems" being ignored by mainstream economics: unemployment, the economy and the environment.

A backlash was inevitable. Several economists (notably the American Robert Solow from MIT), launched a return volley. What followed was an attempt to discredit the PAE by implying that the students were anti-intellectuals opposed to the “scientificity” of neoclassical economics. The accusations didn’t stick: the dissenters were top students who had done the math and found it didn’t add up.

Gilles Raveaud, a key PAE student leader, along with Emmanuelle Benicourt and Iona Marinescu, sees today’s faith in neoclassical economics as “an intellectual game” that, like Marxism and the Bible, purports to explain everything, rather than admitting there are many issues it hasn’t figured out. “We’ve lost religion,” says Raveaud, “so we’ve got something else to give meaning to our lives.”

Benicourt described her hope for PAE as follows: “We hope it will trigger concrete transformations of the way economics is taught . . . We believe that understanding real-world economic phenomena is enormously important to the future well-being of humankind, but that the current narrow, antiquated and naive approaches to economics and economics teaching make this understanding impossible. We therefore hold it to be extremely important, both ethically and economically, that reforms like the ones we have proposed are, in the years to come, carried through, not just in France, but throughout the world.”

United Kingdom

Raveaud and Marinescu, key French PAE student leaders, visited the Cambridge Workshop on Realism and Economics in the UK. “It must have been the right time,” says Phil Faulkner, a PhD student at Cambridge University. That June he and 26 other disgruntled PhD students issued their own reform manifesto, called “Opening Up Economics,” that soon attracted 750 signatures. Economics students at Oxford University, who had been at the same workshop, followed with their own “post-autistic” manifesto and website. Similar groups linked to heterodox (as opposed to orthodox) economics began emerging elsewhere in Europe and South America.

The Cambridge rebellion “was prompted by frustration,” says Faulkner, but they hadn’t expected such a positive reception from fellow students. “If anyone were to be happy about the way economics had gone, we’d expect it to be PhD students, because if they were unhappy with it, they simply wouldn’t be here. In fact, that wasn’t the case.”

As expected, Cambridge ignored them. Their efforts, Faulkner explains, were meant to show support for the French students and to use their privileged position at the esteemed economics department to demonstrate to the rest of the world their discontent. Some of the signatories worried that speaking out could have dire consequences, and the original letter was unsigned. “I think it’s more future possibilities, getting jobs, etc., that [made them think] it might not be smart to be associated with this stuff,” says Faulkner. He says he already knew that his research interests meant he would have to work outside of the mainstream: “There was nothing to lose really.”

Edward Fullbrook, a research fellow at the University of the West of England, had already launched the first post-autistic economics newsletter in September 2000. Inspired by the French student revolt and outraged by stories emerging from American campuses that courses on the history of economic thought were being eradicated (which he viewed as an effort to facilitate complete indoctrination of students), Fullbrook battled hate mail and virus attacks to get the newsletter off the ground. Soon, prominent economists such as James Galbraith stepped up to offer encouragement and hard copy. The subscriber list ballooned from several dozen to 7,500 around the world.

Fullbrook edited *The Crisis in Economics*, a book based on PAE contributions, now being translated into Chinese. Textbook publishers, always hunting for the next big thing, have been inquiring about PAE textbooks. It makes sense, says Fullbrook, since enrollments in standard economics classes have been dropping, cutting into textbook revenues. In other words, students just aren't buying it. Ironically, says Fullbrook, "Market forces are working against neoclassical economics."

One of his contributors is Australian economist Steve Keen, who led a student rebellion in 1973 that led to the formation of the political economy department at Sydney University. "Neoclassical economics has become a religion," says Keen. "Because it has a mathematical veneer, and I emphasize the word veneer, they actually believe it's true. Once you believe something is true, you're locked into its way of thinking unless there's something that can break in from the outside and destroy that confidence."

But the neoclassical model still reigns supreme at Cambridge. Phil Faulkner now teaches at a university college, but is limited to mainstream economics, the only game in town. "If you're into math, it's a fun thing to do," he says. "It's little problems, little puzzles, so it's an enjoyable occupation. But I don't think it's insightful. I don't think it tells these kids about the things it claims to describe, markets or individuals."

United States

Sitting in an overcrowded café near Harvard Square, talking over the din of full-volume Fleetwood Mac and espresso fueled chatter, Gabe Katsh describes his disillusionment with economics teaching at Harvard University. The red-haired 21-year-old makes it clear that not all of Harvard's elite student body, who pay close to \$40,000 a year, are the "rationally" self-interested beings that Harvard's most influential economics course pegs them as.

"I was disgusted with the way ideas were being presented in this class and I saw it as hypocritical – given that Harvard values critical thinking and the free marketplace of ideas – that they were then having this course which was extremely doctrinaire," says Katsh. "It only presented one side of the story when there are obviously others to be presented."

For two decades, Harvard's introductory economics class has been dominated by one man: Martin Feldstein. It was a *New York Times* article on Feldstein titled "Scholarly Mentor To Bush's Team," that lit the fire under the Harvard activist. Calling the Bush economic team a "Feldstein alumni club," the article declared that he had "built an empire of influence that is probably unmatched in his field." Not only that, but thousands of Harvard students "who have taken his, and only his, economics class during their Harvard years have gone on to become policy-makers and corporate executives," the article noted. "I really like it; I've been doing it for 18 years," Feldstein told the *Times*. "I think it changes the way they see the world."

That's exactly Katsh's problem. As a freshman, he'd taken Ec 10, Feldstein's course. "I don't think I'm alone in thinking that Ec 10 presents itself as politically neutral, presents itself as a science, but really espouses a conservative political agenda and the ideas of this professor, who is a former Reagan advisor, and who is unabashedly Republican," he says. "I don't think I'm alone in wanting a class that presents a balanced viewpoint and is not trying to cover up its conservative political bias with economic jargon."

In his first year at Harvard, Katsh joined a student campaign to bring a living wage to Harvard support staff. Fellow students were sympathetic, but many said they couldn't support the campaign because, as they'd learned in Ec 10, raising wages would increase unemployment and

hurt those it was designed to help. During a three-week sit-in at the Harvard president's office, students succeeded in raising workers' wages, though not to "living wage" standards.

After the living wage 'victory', Harvard activists from Students for a Humane and Responsible Economics (share) decided to stage an intervention. This time, they went after the source, leafleting Ec 10 classes with alternative readings. For a lecture on corporations, they handed out articles on corporate fraud. For a free trade lecture, they dispensed critiques of the wto and imf. Later, they issued a manifesto reminiscent of the French post-autistic revolt, and petitioned for an alternative class. Armed with 800 signatures, they appealed for a critical alternative to Ec 10. Turned down flat, they succeeded in introducing the course outside the economics department.

Their actions follow on the Kansas City Proposal, an open letter to economics departments "in agreement with and in support of the Post-Autistic Economics Movement and the Cambridge Proposal" that was signed by economics students and academics from 22 countries.

Harvard President Lawrence Summers illustrates the kind of thinking that emerges from neoclassical economics. Summers is the same former chief economist of the World Bank who sparked international outrage after his infamous memo advocating pollution trading was leaked in the early 1990s. "Just between you and me, shouldn't the World Bank be encouraging MORE migration of the dirty industries to the LDCS [Less Developed Countries]?" the memo inquired. "I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that . . . I've always thought that under-populated countries in Africa are vastly UNDER-polluted . . ."

Brazil's then-Secretary of the Environment, Jose Lutzenburger, replied: "Your reasoning is perfectly logical but totally insane . . . Your thoughts [provide] a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional 'economists' concerning the nature of the world we live in."

Summers later claimed the memo was intended ironically, while reports suggested it was written by an aide. In any case, Summers devoted his 2003/2004 prayer address at Harvard to a "moral" defense of sweatshop labor, calling it the "best alternative" for workers in low-wage countries.

"You can't ignore the academic foundations for what's going on in politics," says Jessie Marglin, a Harvard sophomore with share. share didn't want a liberal class with its own hegemony of ideas. It wanted "a critical class in which you have all the perspectives rather than just that of the right." Without an academic basis for criticism, other approaches "aren't legitimized by the institution," she says. "It becomes their word versus Professor Feldstein, who is very powerful."

Harvard economics professor Stephen Marglin, Jessie's father, teaches the new course. A faculty member since 1967, Marglin was the tail end of a generation formed by the Great Depression and World War II. "This generation," he says, "believed that in some cases markets could be the solution, but that markets could also be the problem."

His new course still uses the Ec 10 textbook, but includes a critical evaluation of the underlying assumptions. Marglin wants to provide balance, rather than bias. "I'm trying to provide ammunition for people to question what it is about this economic [system] that makes them want to go out in the streets to protest it," he says. "I'm responding in part to what's going on and I think the post-autistic economics group is responding to that. Economics doesn't lead politics, it follows politics. Until there is a broadening of the political spectrum beyond a protest in Seattle or a protest in Washington, there will not be a broader economics. People like me can plant a few seeds but those seeds won't germinate until the conditions are a lot more suitable."

The revolution is spreading. A slogan emblazoned on a wall on a Madrid campus, where the PAE movement has been making inroads, makes its case: “¡La economía es de gente, no de curvas!” – “Economics is about people, not curves!”

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