

World Economics Association Newsletter

To *plurality*. The Association will encourage the free exploration of economic reality from any perspective that adds to the sum of our understanding. To this end it advocates plurality of thought, method and philosophy.

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Contribute to the
World Economics
Association

Call for contributions:

<http://www.worldeconomicsassociation.org/contribute/>

The latest on WEA Conferences

As most WEA members know we had to postpone the conference on '**The Economics Curriculum. Towards a Radical Reformation**' due to serious illness by its main leader Jack Reardon. The deadline for papers has been extended to April 21st and the Discussion will be from 3rd May to 31st May. We are confident that, following treatment, Jack will be able to resume his role in the conference. Meanwhile a considerable amount of work is being done by his co-leader Maria Alejandra Madi as well as by David Wheat and Haiyun Zhao. I am very grateful to all three for their cooperation. I am also grateful to the authors of submitted papers who have accepted the postponement.

We already have a number of very good papers. There may be time for some of you to submit a paper. I look forward to many members contributing their views on the curriculum with comments on the posted papers beginning May 3d.

This conference is the first one at which we are setting up online Book Stalls. There are several already on the site and we look forward to more. You have a chance to advertise your textbooks to thousands of colleagues all over the world.

Individual members can advertise their conference-related books for a fee of £10. Conference leaders and authors of accepted papers will have their conference-related books advertised free of charge. Please send the following to wea.curriculum2013@gmail.com:
High resolution image of the book cover (preferably JPEG format)

A URL of the preferred place where the book can be bought

Please pay at:

<http://www.worldeconomicssociation.org/advertising/>

This spring will also see another very interesting conference led by Jayati Ghosh: **Inequalities in Asia**. The deadline for papers is 28st April 2013 and the Discussion Forum is set for 12 May to 8th June 2013. The increase in inequalities in many aspects of economic and social life is probably the biggest unifying element across most countries of the world. I am very grateful to Jayati Ghosh and co-leaders Vamsi Vakulabharanam and Parthapratim Pal.

I would very much like to explore the theme of *Inequalities* with regard to other regions and countries. If any member has ideas on this please contact me.

A third conference which is well underway for 2013 is: **Neoliberalism in Turkey: A Balance Sheet of Three Decades** led by Erinc Yeldan. The call for this conference is included in this Newsletter. We are working towards the following dates. Deadline for papers: 1st October; Discussion Forum: 28th Oct – 24th Nov.

Discussion on other conferences are ongoing. I would love to hear from any of you who have ideas for themes and leaders.

Grazia Ietto-Gillies

Chair, Conference Organizing Committee

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The Economics Curriculum

Join us from 3rd May at:

<http://curriculumconference2013.worldeconomicssociation.org>

WEA Conferences 2013
The economics curriculum: towards a radical reformation
Discussion forum 3 May–31 May

Leader: Jack Reardon

Co-leaders: Maria Alejandra Madi, David Wheat and Haiyun Zao

This conference was postponed due to serious illness by its leader Jack Reardon. We are pleased to say that Jack now is back at work.

Activities on the conference have continued thanks to the work of the co-leaders. I greatly appreciated their support and dedication. Maria has been exemplary in her competence, efficiency and hard work. I am very grateful to all of them.

We have managed to get a strong list of papers and here are their authors and title. I now invite all WEA members to participate to this interesting and controversial conference by commenting on the papers. The Discussion Forum opens on 3 May. [The web site is here.](#)

[Grazia Letto-Gillies](#), Chair, Conference Organizing Committee

Papers

Teaching economic policy in Italy *Nicola Acocella*

Orthodox Economic Education, Ideology and Commercial Interests: Relationships that Inhibit Poverty Alleviation
James Angresano

The State of Economics and the Education of Economists *Diane Coyle*

Teaching Open-system Economics *Sheila Dow*

What I would like economics majors to know *David Hemenway*

Market, socialism and democracy in an interdisciplinary perspective *Arturo Hermann*

Teaching Replication in Quantitative Empirical Economics *Jan H. Höffler*

The multinationals' age is everywhere but in the economics curriculum *Grazia Letto-Gillies*



Economic Thought

History, Philosophy and Methodology

An Open Access, Open Peer Review Journal from the World Economics Association

Vol 2, No.1, 2013 - Special Issue on Ethics and Economics

Ontological Commitments of Ethics and Economics <i>Karey Harrison</i>	Abstract	Download PDF
Codes of Ethics for Economists: A Pluralist View <i>Sheila C Dow</i>	Abstract	Download PDF
No Ethical Issues in Economics? <i>Stuart Birks</i>	Abstract	Download PDF
Professional Economic Ethics: Why Heterodox Economists Should Care <i>George DeMartino</i>	Abstract	Download PDF
And the Real Butchers, Brewers and Bakers? Towards the Integration of Ethics and Economics <i>Riccardo Baldissoni</i>	Abstract	Download PDF

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The Mexican Tiger: Burning bright in the middle of the night?

By [Juan Carlos Moreno-Brid](#), Deputy Director. ECLAC Mexico (The opinions here expressed are the author's sole responsibility and may not coincide with those of the organization)

Today, in the eyes of economic analysts and world capital markets, Mexico has become, once again, the poster child, the most-likely-to-succeed kid among emerging economies. Indeed, Mexico's appearance in the headlines of the international press has dramatically changed in the last few months. While in the last six years it was increasingly referred to in the context of drug cartels violence, today it is mentioned as a once again upcoming economic power. For example Jim O'Neill -Goldman Sachs' Mr. BRIC- last week stated that Mexico will be the seventh largest economy in the world by 2020 and is currently one of the four most important growth markets worldwide. Compared to the international perception of other large Latin American countries, like Argentina, Brazil and Venezuela, seen as facing major macroeconomic problems or even political challenges, the image of Mexico does shine in world financial circles. Vast sums of short term capital flows into its economy, attracted by important returns in the midst of a politically tranquil presidential transition and an economy marked by low inflation and a minimal fiscal deficit. But, besides this comparison, what has triggered such change in the international perception of Mexico's economic performance and outlook? Is such improved perception sustainable?

If one looks at Mexico's raw macroeconomic and social data, not much has changed in the last twelve months to back such vastly improved assessment of its potential performance by the international media. For years inflation has been very low and continued to be so in 2012, and fiscal deficits are below 2% of GDP. Last year the terms of trade did not improve significantly and both fixed capital formation and foreign direct investment did not have a stellar performance. Moreover, GDP grew by 3.9% that year –the same as in 2011- and is forecasted to grow slightly less in 2013 given the lack of dynamism of foreign demand. But, if the macro data has not moved in a more favorable path, the arrival to power of the elected new government of President Peña Nieto improved practically overnight the financial world's perceptions of Mexico, its polity and economic potential. Major journals including the FT, the New York Times, Bloomberg, the Economist and the Wall Street Journal as well as main newspapers in Mexico since then have run editorials and op-eds recognizing -and some of them actually welcoming- the ambitious economic reform agenda announced by President Peña Nieto in his inaugural address. Most impressive was the fact that such a reform agenda, in which the State is assumed to play a key role in promoting development, was unveiled as part of a Pact-for-Mexico newly signed by the key representatives of the three main political parties. With such a Pact, the new Government evidenced a will and ability to build

consensus among political actors on main elements of a policy agenda to place Mexico on a path of high and sustained economic expansion. Such ability to build consensus among key representatives of the main political parties on a number of items of the development agenda is welcome in Mexico. In doing so it contrasts with the legacy of the previous government, marked by its scant luck or incapacity for reaching accords with the opposition on important economic reforms. Another contrast with the previous administration is the new government's explicit recognition that the State is a key actor with a major responsibility to promote economic development and that, in such capacity, it has a fundamental role to play in removing certain constraints that bind the nation's economic growth potential.

This announced broad shift in economic policy orientation away from a mainly laissez faire, laissez passer prescription is important in Mexico. But, having said this, it is not yet clear to what extent the new government's policy agenda will and can depart in actual practice from mainstream positions on key issues of the agenda. And as long as the details of the design and application of major reforms that the administration plans to put forward, including the fiscal one, are unknown it is not yet possible to judge their need, impact and applicability. Thus, on the one hand the Pact does mention policy issues close to the Neo-Structuralist school: industrial policy, development banking, a progressive fiscal reform to strengthen fiscal revenue, reduce its dependence on taxes on oil exports and increase the State's capacity to improve infrastructure. On the other hand, the official discourse explicitly rejects the idea of a dual mandate – growth and stability- for the Central bank, and the Pact has not distanced itself from the current Law of Fiscal Responsibility that imposes the legal obligation on the Ministry of Public Finances to maintain a yearly balanced federal budget –i.e. a zero deficit- and by doing so it inherently introduces a pro-cyclical orientation on fiscal policy. The new administration's position is still unclear on the scope, the instruments and the degree and form of State intervention that its new industrial policy will consider. In this regard, the administration has identified the lags in productivity as the main cause of Mexico's slow pace of economic expansion. But it has yet to point out what type of industrial policy it will apply to correct this situation. Apparently, it will go beyond the mere elimination of red tape and facilitation of administrative processes. It is yet to be seen how much it will move over and above strengthening Mexico's static comparative advantages based on resource allocation. In this matter, there is a positive sign given by the high priority that the government has assigned to technological innovation and science promotion. Mexico has certainly regained some market share in the US due to China's deliberate increase in real wages as it moves up the global value chain. But clearly Mexico has to move up the technological ladder in its manufacturing and production

processes, as it cannot compete any more based on cheap labour and low transport costs. In order to do so, an active industrial policy is indispensable. Finally, the new administration has already presented a proposal for financial reform with the goal of boosting banking sector lending to private business, especially to small and medium sized enterprises. However, the proposal also considers applying immediately Basle III standards to all financial intermediaries in Mexico; a move that, if approved, will considerably restrict credit lending.

In brief, Mexico's vastly improved image on the monitor of the international financial and economic markets very much rests on the high expectations raised by President Peña Nieto's economic reform agenda and his so far strong political capacity to build consensus among key political actors. This capacity has recently been strained by denunciation of political use of funds of important social programs in a federal state, leading to a new cycle of negotiations among political parties that so far seems to move in a favorable direction. The incident does stress the need to put special attention on transparency, accountability and result-oriented in policy formulation.

In any case, at the time of writing there is yet no information on the details of the design, orientation and scope of the new administration's planned reforms on key areas that have restrained Mexico's economic and social development and that tend to reproduce vicious circles of poverty and inequality. But, in any case, it is for us evident that for any policy agenda to succeed in inserting Mexico in a path of robust, much more equitable, economic and social development it will have to tackle four main areas. The first is to carry out a fiscal reform that significantly strengthens tax revenues, as they – especially income taxes- currently comprise a very small proportion of GDP in comparative international standards. The reform should also aim to:

1. significantly reduce the dependence on oil exports, as they currently represent more than 40% of Mexico's total fiscal revenues,
2. promote a much more even distribution of income, and
3. eliminate the legal obligation to maintain an annual balanced budget (zero fiscal) and thus allow a more flexible approach that may give way to carry out countercyclical fiscal policies.

The second is to put in place an active industrial policy that goes beyond the mere promotion of static comparative advantages based on given resource allocation. An important instrument of this new industrial policy should be the development banks as key actors able to affect the availability of finance for entrepreneurial activities. The third element is to avoid the tendency towards the appreciation of the real exchange rate that has marked Mexico for a long time. This trend is a major constraint on investment in tradables, and thus it hinders Mexico's international competitiveness and makes even more binding the balance of payments constraint on its long-term growth potential. Finally the fourth and most important element that must be in the development agenda is the recognition that policies to promote equality must be explicitly introduced and taken into consideration in the formulation of the overall economic strategy. We have yet to see to what extent the reform agenda announced by the administration of President Peña Nieto will tackle these issues. We are hopeful that its recognition of inequality as well as of slow growth as major obstacles in Mexico's path to development lead its policy proposals in this direction. If they do, the Mexican tiger will keep shining bright, otherwise our nation's quest to development may once again be "... bound in shallows and in miseries. On such a full sea are we now afloat, and we must take the current when it serves or lose our ventures..." [[Shakespeare, Julius Caesar Act IV](#)]

WEA Conference report: [The political economy of economic metrics](#)

Between the end of January and the middle of March this year the World Economics Association's web-conference on 'The political economy of economic metrics' took place. It was a necessary conference, but only a modest success. Why?

1. The conference had three main goals:

Goal A: Somewhat idealistically (and in a very modest way) it aimed at mending the rift between 'academic economics' and 'economic statistics' a little. In most sciences, the art of estimating and measurement is an important element of a university education. In economics it isn't. The whole process of defining, measuring and publishing data takes place in statistical institutes, deeply imbedded in the policy process. To a certain extent, there is ignorance in academia about what happens in these statistical institutes. This is



By [Merijn Knibb](#)

to the detriment of 'university economics'. I even dare to state that a lot of 'new-classical economics' – if it's their definition of money, the idea of 'Ricardian equivalence', or the concept of the hyper rational 'representative consumer' - involves highly evolved rationalizations to evade the consequences of the measurement of the actual economy. And it is not just the measurements, but also the concepts behind these measurements that are problematic. For example, the concept of 'endogenous money' is absolutely crucial to monetary statistics, but it is negated by much academic economic scribbling. Making students of economics more aware of these concepts might mitigate the influence of rather fundamentalist, extreme ideas in economic modelling.

Goal B: It tried to promote discussion about economic

statistics, the concepts behind these statistics, and the extent to which these concepts are deeply tainted by politics, including for instance the fact that many statistics show developments within a particular country. Hey, somebody pays for these statistics! The rise of house prices during recent decades was so detrimental for economic development while at the same time so beneficial for banks which lent the 'Ponzi'-money needed to finance these increases. How significant is it that it is not included in our estimates of inflation, while these neutered estimates are used as a target by the central banks? These kinds of questions should be asked more often.

Goal C: It tried to bring a number of quality papers together which, taken together, might give the ardent reader a reasonable overview of the state of the art of gathering (macro-)economic statistics. Statistical offices gather loads and loads of data, often using very complicated measuring grids. It's quite difficult to get an oversight, and so the conference aimed at providing something akin to this.

2. Did the conference reach its goals?

Goal A: No. To be able to reach this goal it has to generate wider recognition of a fundamental point. Concepts used in economic models might have the same name as concepts used in economic statistics but are, in fact, not the same thing. It is important that there develops a heightened awareness about the complicated process of defining and measuring economic variables. To achieve this, it will have to be seen *as an integral part of the science of economics*. A conference like this one can of course only hope to make a very limited contribution to such a change. At this moment it can only be doubted if even that has been accomplished.

Goal B: A little bit of progress has been made on this front, especially when we look at a number of the papers.

Goal C: This has by and large been accomplished. If we consider a 'production function' approach, which explains production and distribution as a function of the way in which capital, land, labour and money are used and organized, it does cover a lot of these areas. There is information on production (the [Bos](#) paper and the [Leishvily](#) paper), Labour (the [ILO](#) paper), Money (the [Knibbe/Mahe/Schrijvers](#) paper, the [Baker](#) paper and the [Grignon](#) paper) and the connection between (monetary-)production and well-being (the [Cañal-Fernández and Hernández-Muñiz](#) paper, the [Zacharias, Antonopoulos and Masterson](#) paper and the [Bartolini-Saracino](#) paper). A paper on the measurement of land and capital is however lacking.

3. A short summary of the papers

It's challenging to give a short summary of the papers. If anything, they show that money is not neutral. Paul Grignon points out that the amount of money is limited – but the amount of money due isn't, due to compound interest, a problem which is aggravated when money is used to pay down debts to MFI's, which diminishes the stock of money available to pay down other debts (or to

spend). The ILO Paper points out the problems with (estimating) wage labor in our monetized society and calls for paying more attention to non-monetary labor (as well as, of course, people not-working for money, i.e. the under- and unemployed). Zacharias et al try, in line with this, to estimate prosperity in a situation in which people have to accept low paying jobs with as a consequence a decline of 'home production', while Bartolini and Saracino argue that social capital (crucially dependent on 'home production') is a better predictor for long term happiness than GDP, while Cañal-Fernández and Hernández-Muñiz argue that GDP is a metric not of prosperity, but of the flow of money. This point is underscored by Bos, who explains the concept and measurement of the national accounts. He points out that – while an (important) detail of the national accounts and GDP – fundamentally it is the flow of money between sectors of the economy, estimated with this most basic of all economic models, accounting sheets. The estimation of the amount of money which is flowing is the subject of Mahé, Knibbe and Schrijvers, who emphasize that according to monetary and business statistics, the flow itself often generates its own money, not just in the shape of legal tender but also in the shape of for instance receivables and payables: money is born from debt. Baker states that the government can and should create money, too, to prevent overblown private credit creation (which squares with the ideas of Grignon, who warns about private credit and compound interest).

[Schilgen](#) wants to get rid of money altogether, when estimating production, and proposes an energy-unit of account – an approach which is of course related to input-output thinking. *All in all, one common theme seems to be the distrust of modern bank-based money as a tool to estimate or engender well-being – modern money being largely absent from many present day economic models.*

Where to go from here?

'Mending the rift' and heightening awareness of the inherent political and national character of economic statistics' is not going to happen when a conference does not reach either academic economists or economic statisticians. However, a case – an overwhelming case – can be made that students of economics need to know more about the concepts and definitions of economic variables, about the SNA (System of National Accounts) as the complicated macro-economic equivalent of the periodic table of the chemistry, the taxonomy of biology or the rules of law. It might be worthwhile to consider whether the curriculum of economics should pay more attention to this. And the good news is of course that the econoblogosphere has led to an increased use of statistics (the [FRED database](#)!), while it also acts as a purgatory for famous economists who are less than careful with data and concepts, [Reinart and Rogoff](#) being the latest example. But even then, the statistical systems are complex, opaque, boring and often counter intuitive and criticisms should be founded upon a broad understanding. It is necessary for people to acquire this. But how? Economics won't be more fun. It will be more scientific.

Yet more dissatisfied economics students

The latest initiative to broaden the content of economics courses has come from a campaign for diversification by students at Michigan State. The following bill was recently passed by the student government:

ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY
GENERAL ASSEMBLY FORTY-NINTH SESSION
G.A. 49-72

INTRODUCED BY: Nikolovski SECONDED BY: Goheen

A BILL TO:

ADVOCATE FOR THE DIVERSIFICATION OF THE CURRICULUM WITHIN THE DEPARTMENT OF ECONOMICS
THE ASSOCIATED STUDENTS OF MICHIGAN STATE UNIVERSITY ENACT:

WHEREAS, Since the recent global financial crisis, there has been a heightened debate within academic circles about the varying methods of analyzing economic phenomena. The department of Economics at MSU teaches from a single theoretical framework, widely known as the neoclassical school. This framework is only one perspective among several others which are not taught, and only gives one way of trying to understand our economy; and,

WHEREAS, Economists espousing other theoretical frameworks have given insights into important economic phenomena which have drastic implications for economic policy. Some important analyses include alternative empirical work that consistently explains the process of economic growth and—what is connected—warnings of the global financial crisis prior to its precipitation. These frameworks of thought use completely different methods and assumptions than those that are taught here at MSU; and,

WHEREAS, Students taking Economics within MSU are unlikely to be aware of the debates that go on, because the vast majority of what they do as “economics” is in the form of math problems which takes the assumptions and method of the neoclassical framework as given. Also, because students are often not explicitly made aware of the method and assumptions that underlie the mathematical formalism that they use, there is an appearance of diversity in the topics within the curriculum (e.g. international economics, microeconomics, and macroeconomics). Students should be made aware that there is a basic unity in the methods of neoclassical economics in analyzing these different topics; therefore be it,

RESOLVED, That MSU’s Economics department diversify its curriculum to allow students to engage not only with neoclassical work, but also competing frameworks so that they may be aware of the debates that are going on. A first recommendation includes giving more explicit recognition of the underlying method and assumptions of the frameworks that are taught, as well as engaging with the original works of the foundations of the different schools of economics (e.g. Adam Smith, David Ricardo, Alfred Marshall, Karl Marx, John Maynard Keynes, and Milton Friedman.)

To put this in context, another initiative, Pour un Enseignement Pluraliste de l’Economie dans le Supérieur, PEPS, was reported on page 8 of [Issue 3\(1\) of this Newsletter](#). You can read their [manifesto in English](#). They have a **Global Directory for Student Initiatives aiming at changing economics and its teaching worldwide**: <http://minu.me/87k4> Note also the **protest by Harvard students** in November 2011 reported on page 12 of [Issue 1\(1\) of this Newsletter](#). There is also the **Memorandum issued by 103 German speaking professors**, released in June 2012 and reported on page 6 of [Issue 2\(3\) of this Newsletter](#). And recall the **French students’ protest in June 2000** which was the catalyst for much of the current activity. Their “Open letter from economic students to professors and others responsible for the teaching of this discipline” is [available here in English translation](#).

The November–December 2003 issue of *Challenge* included a telling interview with Gilles Raveaud, [Revolutionizing French Economics](#). It relates to the 2000 initiative. Here is an extract:

“Some [economic s students] actually know more about culture than their professors. They are familiar with Marx, Keynes, and Schumpeter, and they’re familiar with broad explanations of economic life. They have some clues in sociology, some basic historical facts, etc., which obviously you do not need in university economics.”

And let’s not forget [Political Economy Now! The struggle for alternative economics at the University of Sydney](#).

For additional resources, see the list of links to documents, petitions, commentary, etc., at:

History of and documents from the PAE Movement: <http://www.paecon.net/PAEmovementindex1.htm>

WEA Conference: Neoliberalism in Turkey: A balance sheet of three decades

Introduction

The Turkish economy and society have been the subject of neoliberal agenda since 1980, in the crucial first three years under conditions of military dictatorship. Executed under the direct supervision of the IMF and the World Bank, the last three decades have witnessed an extensive shift in the Turkish pattern of development with the rise to hegemony of the neo-liberal orthodoxy dictating “market rationality” over any other form of collective decision-making. In the words of Bourdieu (1998), this infernal machine, termed neoliberal globalization, has sought to destroy all collective structures that are held as a hindrance to the profitability of private capital. Thus, trumpeted with the rhetoric of TINA (There is No Alternative) the neo-liberal orthodoxy introduced new rounds of conditionality as part of its hegemonic agenda: financial de-regulation, trade and capital account liberalization, flexible exchange rates, privatization, flexible labor markets, marketization of agriculture, central bank independence, fiscal austerity, and “good governance”.

In contrast to the traditional stabilization packages that aimed at devaluation *to restrain domestic demand*, the new orthodoxy aimed at maintaining high interest rates for the purpose of *attracting speculative foreign capital* from the international financial markets. The end results in the Turkish context were the shrinkage and *commercialization* of the public sector in a *speculation-led growth* environment, and the transfer of decision-making relating the public sphere from constitutional institutions to “independent” supreme bodies of regulation, working under “global rules” of “governance”.

Over this discourse, not only the macro economy, but all aspects of social/institutional infrastructure were subjected to “structural adjustment”. Starting with a direct intervention to the legal system with a new constitution and a thoroughly revised Labour Law that radically limited the rights of the working classes and trade unions in the immediate aftermath of the military intervention, a series of administrative regulatory bodies were established, each with a specific task of specialization and with almost no democratic accountability. Often accompanied by a set of appealing concepts including “governance”, “transparency”, “regionalization/localization/de-centralization”, the state apparatus has also been subjected to transformation in line with the strategic interests of national and international capital, in particular the so-called international finance institutions (IFIs).

At the current juncture, the neoliberal project is implemented under the *Justice and Development Party (AKP)* with strong Islamist orientation and with the objectives of: transformation of the state apparatus; dissolution of the public sector under the pretext of “localization” and “democratization based on civil society organizations”; commercialization and commodification of basic services such as health and education; and opening most of the basic needs of society to exploitative initiatives by both national and international capital.

Over the three decades of neoliberalism, growth was both erratic and meager in comparison to the previous era

of import-substituting/ planned industrialization (ISI). Overall, average annual rate of growth was 4.3% during 1980-2011. This was well below the rates achieved during the earlier ISI period (1962-79) with 6.5%; or indeed the 4.9% average rate of the entire history of the Republic (1923-2011). Following the capital account liberalization of 1989, sudden stops and reversals of capital inflows led to two deep crises in 1994 and 2001 and a deep recession in 2009. Turkey is currently trapped in a foreign debt-ridden structural current account deficit (currently standing at 7% of GDP and rising), and a speculative, volatile growth environment subjected to the whims of international finance capital.

Conference Call

With this conference we hope to stimulate debate on the systemic assault of capital on the peoples at the center and the periphery of the global capitalist system with Turkey serving as an example of the impact of “neoliberal *great moderation*”.

The focus of the conference is Turkey. However papers on other countries that draw comparisons with – and implications for – Turkey are welcome. So are papers that put forwards alternative perspectives and explanations. We invite contributions in the following areas. The list is indicative rather than prescriptive. Relevant papers in related fields will be considered.

- Macroeconomic policies in the era of globalization and neoliberalism.
- Independent central banking and inflation targeting: political and economic effects.
- Balance of payments issues under the neo-liberal agenda.
- Are financialization and de-industrialization of the economy linked? The case of Turkey
- Fiscal austerity: winners and losers; short and long term effects.
- Labour markets under the neo-liberal agenda. Productivity, labour and new technologies; the new international division of labour; the casualization of labour and its implications for the economy, society and politics in Turkey.
- Income and wealth distribution: changes; impact on the economy and society.
- Wider inequalities including inequalities by gender and regions.
- The role of foreign multinationals and international financial institutions in the Turkish economy.
- The restructuring of the state and its impact on stakeholders from labour to finance capital to manufacturing capital, to small businesses.
- Localization and de-centralization. The role of civil society institutions and conceptualization of “governance” and the “new democracy”.
- Emergence of Islamic conservatism and its relationship with neoliberal policies.
- The dismantling of the welfare state: short and long term impact on education, health care and social infrastructure. Poverty and social exclusion.

Leading team

Main leader: Erinc Yeldan, Professor of Economics and Dean of the Faculty of Economics and Administrative Sciences at the Yaşar University. (erinc.yeldan@yasar.edu.tr). He is one of the founding executive committee members of the *International Development Associates* (IDEAs) New Delhi, and also a member of the *Independent Social Scientists' Alliance of Turkey*. Yeldan teaches macroeconomics; international economics and theories of growth.

Co-leaders:

Korkut Boratav, Professor of Economics, Retired, Ankara University, Faculty of Political Science. (korkut@boratav.com). Currently a member of the *Independent Social Scientists' Alliance of Turkey*. Boratav has contributed extensively on Turkish macroeconomy, especially external balances and the rise of the rentier class in Turkey.

Fikret Şenses, Professor of Economics, Middle East Technical University; member of the Independent Social Sci-

tists' Alliance of Turkey. (fsenses@metu.edu.tr). Şenses has taught and contributed extensively on issues of international economics, poverty and development economics.

Özden Birkan, Assistant Professor of Economics at Yaşar University. (ozden.birkan@yasar.edu.tr). She holds a PhD from University of Utah and teaches macroeconomics, econometrics and international economics.

Ilker Aslan, PhD student in Political Economy at the University of Fribourg, Switzerland. (ilker.aslan@unifr.ch). Aslan holds a MSc in European Law and Business from Aarhus University, Denmark and BSc in Business Administration from University of Texas at Dallas. His areas of research are macroeconomics, monetary economics with a focus on the effects of financialization.

Timetable

Deadline for papers: 1 October, 2013

Discussion forum: 28 October – 24 November, 2013

The causes of deep, long crisis : finance and the US profit rate By Alan Freeman

Recent months have seen a growing debate among Marxists around the US profit rate and its relation to the present crisis. This is a paradox, since in the main, [Marxists reject Marx's own account](#) of the relation between accumulation and the profit rate; indeed [Michael Heinrich](#) has recently argued that Marx had no theory of crisis and that there is no basis to suppose capitalist accumulation leads to a falling profit rate. Yet there is wide agreement with [Duménil and Lévy](#) that after a prolonged post-war fall, the US profit rate started rising in the 1980s, recovering by the end of the 1990s and ushering in a new phase of US expansion. Andrew Kliman, in *A Crisis of Capitalist Production*, has provoked considerable controversy with the contrary claim, based on cogent reasoning and extensive evidence, that the US profit rate has continued on its downward trend.

If the rate of profit is of no consequence, why is it so important to show that it is rising? In *The Profit Rate in the Presence of Financial Markets* I suggest these disputes have become part of a surrogate debate. The real problem is how to explain the crisis in the US economy; in particular, is this an extension of a more profound malaise, first expressed in the deep crisis of 1974, or some entirely new 'crisis of neoliberalism' with no roots in those times?

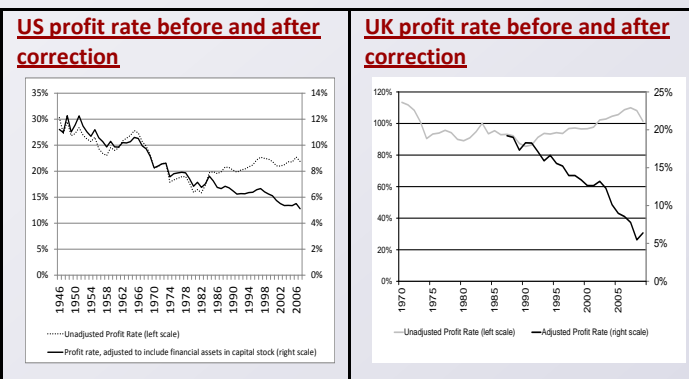
good shape until now, but is still doing rather well. With every month that passes, this idea squares worse with the facts. The crisis is in its seventh year. All other major indicators of performance – GDP growth, long-term unemployment, investment, capacity utilization, the long-term dollar exchange rate, or the balance of payments – suggest that the US economy is in its worst state since 1929 and, moreover, has been heading this way for at least forty years, each successive 'recovery' being more febrile and shorter-lasting than the previous. The unexpected attention that the profit rate has received now appears in a different light. The *only* indicator of 'good health' in the US economy is the rate of profit – except of course as calculated by Kliman. This explains the interest that this indicator has attracted.

My paper casts further doubt on the claim that it is rising. I make a simple correction to existing calculations of the profit rate by amending the stock of capital to include marketable financial assets. I find that the US rate of profit falls uniformly from its peak of 1944 at a rate of 1.4% per year with an R^2 of 96%.

This also solves a puzzle, noticed by few commentators, about the UK rate of profit. This has risen, according to any previous calculation, from 1973 onwards, despite the abysmal performance of the UK economy in all other respects. The corrected rate has fallen at least since 1980 (when figures are first available) and probably since the postwar boom began.

The differences arise because in both countries, capital from 1974 onwards began to accumulate financial assets, which do not figure in traditional measures of the profit rate, in preference to fixed, productive assets, which do. This is not a sign of health; an economy that ceases acquiring productive assets is in effect committing slow suicide, a fact now surfacing in the intractable nature of the current crisis.

Many writers bypass this point by focussing on the *numerator* in the rate of profit. [Recent articles](#) argue that the profit share is increasing, challenging the traditional 'profit-squeeze' theory of previous crises. Even if true, however, this would not address the central problem: the incentive



Contemporary Marxists veer towards the latter account, stressing the great strength of US capital and its excessive profits. From this standpoint, US capitalism was not only in

to invest. This is determined not by the mass of profits, but by the return on capital – the ratio of profits to capital stock.

Writers from the [TSSI](#) (Temporal Single System Interpretation) school, such as myself and [Andrew Kliman](#), along with non-TSSI writers such as Moseley and Shaikh, stress the centrality of the *denominator* in the rate of profit – the stock of capital. This was Marx's own major concern: section 2 of the [General Law of Capitalist Accumulation](#) advances the central claim that the constant¹ portion of capital rises, relative to the variable (labour), with the progress of accumulation. Other things being equal, this must lead to a falling profit rate.

If Marx's analysis is applied rigorously, it becomes clear that an increase in the profit share cannot permanently offset this rise. Unlike profits, which are limited by the size of the workforce, capital stock grows with no limit. It becomes so great that no reduction in wages, no matter how large, may offset its effect the profit rate. Thus, even the traditionally calculated US rate of profit had sunk to 15% by 1980. Even a 50% wage cut – unprecedented since fascism – would only put it back up to 20%.

A stable restoration of the rate of profit can occur only through a violent reversal in accumulation. But even a slowdown brings about a reduction in an indispensable component of GDP – investment. And in fact between 2008 and 2012, investment is the only major component of US GDP that has declined, accounting thereby entirely for the decline in GDP itself. This is one reason for what [really happened in US history](#), when the US state displaced the private investor for an extended period, laying the basis for the postwar boom.

These facts, and the state of the US economy, contradict past findings that the profit rate is rising. What has gone wrong? TSSI scholars firstly maintain that in such calculations, fixed assets have been wrongly valued at current

cost, not their [historic cost](#) which records the actual monetary outlay of the capitalist. I now offer a new, additional ground: capital consists not just of fixed assets – machinery, buildings, and so on – but also monetary assets.

Marx and Keynes both noticed that in crisis, the normal 'circuit of capital' is interrupted when sellers stop returning money to the economy to make new purchases, and begin hoarding it instead. It is well-known that money holdings of all types rise in every crisis. Since the 1970s, this hoarded money-capital has been accumulating in the form of *financial assets*. Unlike previous forms of money-holding, these compete with productive assets in the market for capital.

Financial mythology treats these holdings as productive, even calling them 'investments'; for Marx they are however simply forms of money, held as capitalised streams of parasitical claims on income produced elsewhere – fictitious capital. But since such instruments compete, in the market for capital, with genuine productive investments, and since they constitute the form in which capitalists are actually holding their assets, they should be included in capital stock. When this correction is made, all the facts make complete sense –and strikingly confirm Marx's original analysis. The result is a very reasonable, theoretically coherent, and empirically convincing explanation of the crisis.

¹Marx distinguishes 'variable' capital, which is advanced to pay wages, from 'constant' capital - all other capital. This, he believed, improved on Ricardo's distinction between 'fixed' and 'circulating' capital. Constant capital includes both fixed and circulating capital, but not labour costs. Marx's usage is intended to express, rigorously, the fact that only labour adds value, whereas the value of constant capital is merely transmitted to the product.

[Editor's note: You can read further on this topic and participate in a blog discussion on the JAPE site at: <http://australianpe.wix.com/japehome#!blog/cto7>]

Interview with Dani Rodrik

[Dani Rodrik](#) is the Rafiq Hariri Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University. Among his latest publications is the book, [The Globalization Paradox: Democracy and the Future of the World Economy](#). He has a [weblog here](#), and [syndicated columns here](#). He recently answered the following questions for the WEA Newsletter:

1. How would you briefly state your perspective on economics?

I would say I am pretty conventional and mainstream on methods, but generally much more heterodox on policy conclusions. I have never thought of neoclassical economics as a hindrance to an understanding of social and economic problems. To the contrary, I think there are certain habits of mind that come with thinking about the world in mainstream economic terms that are quite useful: you need to state your ideas clearly, you need to ensure they are internally consistent, with clear assumptions and causal links, and you need to be rigorous in your use of empirical evi-



dence. Now, this does not mean that neoclassical economics has all the answers or that it is all we need. Too often, people who work with mainstream economic tools lack the ambition to ask broad questions and the imagination to go outside the box they are used to working in. But that is true of all "normal science." Truly great economists use neoclassical methods for leverage, to reach new heights of understanding, not to dumb down our understanding. Economists such as George Akerlof, Paul Krugman, and Joe Stiglitz are some of the names that come to mind who exemplify this tradition. Each of them has questioned conventional wisdom, but from within

rather than from outside.

A typical complaint against mainstream economics is that it is too limiting in the conclusions it leads to. Mainstream economists are often seen as ideologues of the market economy. I would concede that most of my economist colleagues tend to view markets as inherently desirable and government intervention as inherently unwelcome. But in reality what we teach our students in the classroom – the advanced students if not the undergraduates – and what we talk about in the seminar room are typically much more about the myriad ways in which markets fail. I love an old quote from Carlos Diaz-Alejandro who once said something along the lines of “by now any graduate student can come up with any policy conclusion he desires by building appropriate assumptions into his model.” And that was some thirty years ago! We have plenty more models that generate unorthodox conclusions now.

One reaction I get when I say this is the following: “how can economics be useful if you have a model for every possible outcome?” Well, the world is complicated, and we understand it by simplifying it. A market behaves differently when there are many sellers than when there are a few. Even when there are a few sellers, the outcomes differ depending on the nature of strategic interactions among them. When we add imperfect information, we get even more possibilities. The best we can do is to understand the structure of behaviour in each one of these cases, and then have an empirical method that helps us apply the right model to the particular context we are interested in. So we have “one economics, many recipes,” as the sub-title of one of my books puts it. Unlike the natural sciences, I think economics advances not by newer models superseding old ones, but through a richer set of models that shed ever-brighter light at the variety of social experience.

However, contemporary economics in North America has one great weakness, and that is the excessive focus on methods at the expense of breadth in terms of social and historical perspective. PhD programs now train applied mathematicians and statisticians rather than real economists. To become a true economist, you need to do all sorts of reading – from history, sociology, and political science among other disciplines – that you are never required to do as a graduate student. The best economists today find a way of filling this gap in their education. I consider myself very lucky that I was a political science major and did a master’s in public affairs (as it is called at Princeton) before I turned to economics. I say lucky, because some of my best work – by my judgement, at least – was stimulated by questions or arguments I encountered outside of neoclassical economics.

2. How does this compare to the mainstream?

As I said, where I tend to part company with many of my colleagues is with the policy conclusions I reach. Many of my colleagues think of me as excessively dirigiste, or perhaps anti-market. A colleague at Harvard’s Economics Department would greet me by saying “how is the revolution going?” every time he saw me. A pecu-

liar deformation of mainstream economics is the tendency to pooh-pooh the real-world relevance of all the theoretical reasons market fail and government intervention is desirable. This sometimes reaches comical proportions. You get trade theorists who have built their entire careers on “anomalous” results who are at the same time the greatest defenders of free trade. You get growth and development economists whose stock in trade are models with externalities of all kinds who are stern advocates of the Washington Consensus. When you question these policy conclusions, you typically get a lot of hand-waving. Well, the government is corrupt and in the pockets of rent-seekers. It does not have enough information to undertake the right kinds of interventions anyhow. Somehow, the minds of these analytically sophisticated thinkers turn into mush when they are forced to take seriously the policy implications of their own models.

So ironically, I think my heterodox approach has stronger foundations in mainstream economic methods than the views of many of the mainstream economists themselves.

3. Do you think that a more pluralist approach might gain traction? What factors constrain and support such a development?

It depends on what you mean by pluralism. Pluralism on methods is much harder, and I will come back to it. Pluralism on policy is already a reality, even within the boundaries of the existing methods, as I indicated. There are healthy debates in the profession today on the minimum wage, fiscal policy, financial regulation, and many other areas too. I think many critics of the economics profession overlook these differences, or view them as the exception rather than the rule. And there are certainly some areas, for example international trade, where economists’ views are much less diverse than public opinion in general. But economics today is not a discipline that is characterized by a whole lot of unanimity.

Now that doesn’t mean that Economics is a pluralist paradise. There are powerful forces having to do with the sociology of the profession and the socialization process that tend to push economists to think alike. Most economists start graduate school not having spent much time thinking about social problems or having studied much else besides math and economics. The incentive and hierarchy systems tend to reward those with the technical skills rather than interesting questions or research agendas. An in-group versus out-group mentality develops rather early on that pits economists against other social scientists. All economists tend to imbue a set of values that tends to glorify the market and demonize public action. What probably stands out with mainstream economists is their awe of the power of markets and their belief that the market logic will eventually vanquish whatever obstacle is placed on its path.

As a result, economists tend to look down on other social scientists, as those distant, less competent cousins

who may ask interesting questions sometimes but never get the answers right. Or, if their answers are right, they are so not for the methodologically correct reasons. Even economists who come from different intellectual traditions are typically treated as “not real economists” or “not serious economists.”

So the hurdles for the economists that want to depart from the conventional path are pretty high. Above all, they must play by the methodological rules of the profession. That means using the language of mathematics, the standard optimizing, general-equilibrium frameworks, and the established econometric tools. They must pay their dues and demonstrate they remain card-carrying members in good standing.

For those who, like myself, find considerable value in these methodological predilections, these dues are worth paying. I find that these methods keep me intellectually honest; they are a way of convincing myself that I know what I am talking about. My attachment to these methods has not been for instrumental reasons – that is, for acceptance within the mainstream (although it has presumably helped – my intellectual opponents cannot so easily dismiss me by saying “he is not a real economist...”). But I also understand those who find mainstream methods too constraining or unhelpful. I think they offer something of value too, in providing a critique from outside. I often find myself in agreement with those critics on substantive grounds, but find a lot to criticize in their work on methodological grounds.

The criticism of methodological uniformity in Economics can also be taken too far. Surely, the use of mathematical and statistical techniques is not a problem per se. Such techniques simply ensure our arguments are conceptually and empirically coherent. Yes, excessive focus on these techniques, or the use of math just for its own sake, are a problem – but a problem against which there is already a counter-movement from within. In the top journals of the profession, I would say most math-heavy papers are driven by substantive questions rather than methods-driven concerns.

And things change. The two most exciting developments in Economics in the last two decades are the behavioural and experimental revolutions. The first of these has made a significant dent in the rationality postulate of neoclassical economics, while the latter has taken the profession in a profoundly empirical and policy-oriented direction. These are significant changes in how one does mainstream economics, and the fact that they have happened suggests there is room for methodological changes. Not plurality, perhaps, but some degree of evolution in methods. I am not necessarily a great fan of either of these methodological innovations, but they show the profession is able to adapt and change. Note also that both sets of new methods came from outside Economics – psychology and medicine, respectively. Young economists made these methods their own, and changed the discipline from within.

4, What lessons, if any, have been learned from your experiences challenging the conventional wisdom?

If you want to be successful as a scholar, you have one of two paths. Either you come up with a new technique or piece of evidence to shore up conventional wisdom. Or you challenge the conventional wisdom. The latter is a high risk, high return strategy. It is high risk for all the reasons I have mentioned previously. But it is high return because anything that has turned into conventional wisdom is almost by definition wrong, or at least, overstated. So done right, challenging conventional wisdom is a successful research strategy that is bound to pay off. In my own case, every piece of conventional wisdom I challenged had already become a caricature of what sounds economics teaches us. I wasn't doing anything more than reminding my colleagues about standard economic theory and empirics. It was like pushing on an open door. I wasn't challenging the economics, but the sociology of the profession.

For example, when I first began to criticize the Washington Consensus, I thought I was doing the obvious. The simple rules-of-thumb around which the Consensus revolved had no counterpart in serious welfare economics. Neither were they empirically well supported, in view of East Asia's experience with heterodox economic models. When you questioned supporters closely, you first got some very partial economic arguments as response, and then as a last resort some political hand-waving (e.g., “we need to get the government to stop doing such things, otherwise rent-seeking will be rife...”). My argument was that we should take economics (and political economy) more seriously than simply as rules of thumb. Economics teaches us to think in conditional terms: different remedies are required by different constraints. That way of thinking naturally leads us to a contextual type of policy-making, a diagnostic approach rather than a blueprint, kitchen-sink approach.

Similarly, when I questioned some of the excessive claims on the benefits of globalization I was simply reminding the profession what economics teaches. Take for example the relationship between the gains from trade and the distributive implications of trade. To this day, there is a tendency in the profession to overstate the first while minimizing the second. This makes globalization look a lot better: it's all net gains and very little distributional costs. Yet look at the basic models of trade theory and comparative advantage we teach in the classroom and you can see that the net gains and the magnitudes of redistribution are directly linked in most of these models. The larger the net gains, the larger the redistribution. After all, the gains in productive efficiency derive from structural change, which is a process that inherently creates gainers (expanding sectors and the factors employed therein) and losers (contracting sectors and the factors employed therein). It is nonsensical to argue that the gains are large while the amount of redistribution is small – at least in the context of the standard models. Moreover, as trade becomes freer, the ratio of redistribution to net gains rises. Ultimately, trying to reap the last few dollars of efficiency gain comes at the “cost” of significant redistribution of in-

come. Again, standard economics.

Saying all this doesn't necessarily make you very popular right away. I remember well the reception I got when I presented my paper (with Francisco Rodriguez) on the empirics of trade policy and growth. The literature had filled up with extravagant claims about the effect of trade liberalization on economic growth. What we showed in our paper is that the research to date could not support those claims. Neither the theoretical nor empirical literature indicated there is a robust, predictable, and quantitatively large effect of trade liberalization on growth. We were simply stating what any well-trained economist should have known. Nevertheless, the paper was highly controversial. One of my Harvard colleagues asked me in the Q&A session: "why are you doing this?" It was a stunning question. It was as if knowledge of a certain kind was dangerous.

Years earlier, when I wrote my monograph *Has Globalization Gone Too Far?* I had been surprised at some of the reaction along similar lines. I expected of course that many policy advocates would be hostile. But my arguments were, or so I thought, based solidly on economic theory and reasoning. A distinguished economist wrote back saying "you are giving ammunition to the barbarians." In other words, I had to exercise self-censorship

lest my arguments were used by protectionists! The immediate question I had was why this economist thought barbarians were only on one side of the debate. Was he unaware of how, for example, multinational firms hijacked pro-free trade arguments to lobby for agreements – such as intellectual property – that had nothing to do with free trade? Why was it that the "barbarians" on one side of the issue were inherently more dangerous than the "barbarians" on the other side?

But ultimately, the reward of challenging conventional wisdom that has gone too far is that you are eventually proved right. The Washington Consensus is essentially dead, replaced by a much more humble approach that recognizes the importance of locally binding constraints. And many of the arguments I made about the contingent nature of the benefits from trade and financial globalization are much closer to the intellectual mainstream today than they were at the time. I do not think of this as a great achievement. These changes were bound to happen, and I essentially rode the wave.

I suppose there is a lesson here for younger researchers: Identify an intellectual consensus that has gone beyond what the theory and empirics can support and chip away at it. But do so without departing too much from the discipline's accepted methods!

Volunteers needed to run web-based WEA national chapters

The WEA has launched a program to establish national chapters, so as to give the WEA a grass-roots presence in individual countries. Each national chapter will have its own website and in the language or languages of the economists of that nation. Each site will be part of a digitally integrated network of such sites.

Our IT wizard, Jake McMurchie, has designed a flexible template, based on easy to use WordPress software, which can then be filled in to fit the particular country. Here is an example:

<http://worldeconomicssassociation.net/romania>

Volunteers selected for running a national chapter site will be provided with particulars from our database for all WEA members from their country. The email list can then be used to promote the national website. The two together can then be used in general to communicate with and between WEA members in their country, e.g. organize meetings, sessions within national conferences, publications, general announcements, and discussion. The national chapters will of course want to increase their membership, and their new members will automatically be registered as members of the world WEA. The national website content will be up to the people running the site, the only restriction being that it is consistent with WEA principles as set out in its Manifesto.

If you think you might like to become involved with setting up and managing a WEA chapter for your country, please send a few details about yourself to:

nationalchapters@worldeconomicssassociation.org

Initially we plan to begin with 10 countries, but with 50 as our goal within a year.

And if you yourself are not interested in volunteering for this, perhaps you know someone who would be.

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