

POST-KEYNESIAN ECONOMICS STUDY GROUP AND THE PKSG
NEWSLETTER, 1988 – 1997

By

Fred Lee

In 1988, Arestis and Chick successfully applied to the Economic and Social Research Council (ESRC) for a grant to finance a Post-Keynesian Economics Study Group (PKSG)¹ on the grounds “that the volume of research taking a broadly Post-Keynesian approach is now great enough to justify a Study Group.” They visualized Post Keynesian economics as a distinctive theoretical approach that drew on the works of Keynes, Kalecki, Joan Robinson, Kaldor, and Sraffa and distinguished itself by “its insistence that history, social structure and institutional practice be embodied in its theory and reflected in its policy recommendations.” The establishment of the Study Group was the first heterodox organizational structure to emerge with the title of Post- Keynesian in Britain and hence constitutes the organizational beginnings beginning of Post Keynesian economics in Britain.

To develop the PKSG, a mailing list was compiled in 1991 of 225 British economists that might attend its meetings and perhaps present a paper, while notices were placed in Review of Political Economy and the European Association for Evolutionary Political Economy Newsletter inviting foreign Post Keynesian-heterodox economists to present papers to the Study Group. The main activities of the Study Group from 1988 to 1996 consisted of half-day seminars with two or three domestic and/or foreign speakers five or six times an academic year and starting in 1991 one conference each year.² In addition, from January 1995 to December 1997, Dow produced seven issues of the PKSG Newsletter.³ Over the period of 1988 to 1996, there were thirty-nine seminars, six conferences, and one post-graduate conference at which 177 papers were presented to an average audience of thirty-seven economists of which thirty-two were attached to British universities on virtually all methodological, theoretical, and applied topics that would interest Post Keynesian-heterodox economists, including papers drawing from Kalecki, Keynes, Marx, Sraffa, Hayek, and Weintraub, as well as papers that articulated theoretical and methodological critiques of Post Keynesian economics.

The seminars and conferences brought British Post Keynesian-heterodox economists together on a frequent basis so that they developed a ‘visual recognition’ of their community and the intellectual discussions that took place during the meetings and social-intellectual discussions that took place in the pub afterwards furthered the

¹ The ‘E’ was omitted because Arestis and Check felt that PKSEG was too clumsy.

² The themes of the conferences were “Finance and Economic Development” (1991), “Money and Finance in the Economic Restructuring of Europe, East and West” (1992), “Keynes, Knowledge and Uncertainty” (1993), “Symposium on the Theory of the Firm” (1994), “The Relevance of Post Keynesian Economic Policies Today” (1995), and “Keynes, Knowledge and Uncertainty” (1996).

³ A PKSG Bulletin was planned to replace the PKSG Newsletter starting in 1998, but it never materialized.

development of the community. In addition, PKSG Newsletter was established to further integrate the community. It carried notices of conferences, seminars, interesting visitors to Britain, newsletters, journals, new books, and other Post Keynesian associations, abstracts of papers presented at the PKSG seminars and conferences, and news of members and their activities. The PKSG Newsletter also carried one sustained interchange between its members on the demise or future of Post Keynesian economics. When contemplating its establishment, Dow asked Lee to write a controversial piece on Post Keynesian economics for the first issue. Drawing on research he was doing on the impact of the United Kingdom Research Assessment Exercise on heterodox economics and heterodox economists (see chapter 8), he wrote an article for the first issue on “The Death of Post Keynesian Economics?” The article was indeed controversial in that it elicited a number of responses for the next four issues. In particular, the British Post Keynesians—Alistair Dow, Peter Riach, and Paul Downward--questioned the pessimism of the article, took exception to its stress on the need to teach Post Keynesian economics, and felt that Post Keynesian economics could survive and thrive in business schools; but they did not question the existence of the Post Keynesian-heterodox community and that it was a community worth maintaining.

When founded in 1988, the PKSG received a £6000.00 grant from the ESRC initially for the period October 1988 to March 1990, but extended it to November 1990. At that point, it was discovered that the ESRC had suspended funding for all study groups. Thus Arestis and Chick approached the Royal Economic Society (RES) for funding of the Study Group’s activities and received £900.00 for 1991. In addition, Edward Elgar, the publisher, contributed £1000.00 to the conference on “Money and Finance in the Economic Restructuring of Europe, East and West” that took place in March 1992 for the opportunity to publish the conference volume. Then in October 1991, the ESRC awarded the Study Group £10,000.00 for 1992 and 1993. Arestis and Chick applied for ESRC funding in 1993 and again was awarded a grant for 1994 and 1995; but the subsequent application for ESRC funding in 1995 for 1996-97 was not. At the time of the 1995 application, both Arestis and Chick stepped down as co-chair of the PKSG and Sheila Dow and John Hillard took their places. In light of the ESRC rejection, Dow and Chick submitted a funding application to the RES and received a partial grant for 1996.

Losing ESRC funding combined with Arestis and Chick stepping down prompted a rethinking and reflection about the activities of the Study Group. Out of the discussions with various members, including Dow, Chick, Vicky Allsopp, Downward, Bill Gerrard, Lee, and Winnett, a number of proposed changes were articulated, accepted by the members of the Study Group, and put into action. First, the organizational locus of the PKSG was shifted to Leeds University where Hillard was located because he had support for the production and mailing of the PKSG Newsletter and for the Group’s financial reimbursement for travel and other items. Secondly and more significantly, it was decided that some seminars would be located outside of London as a way to broaden and strengthen the PKSG membership and add strength to those departments where there was already a significant Post Keynesian presence;⁴ that a post-graduate workshop be

⁴ There were seminars at Cambridge (1996, 1997), Glasgow Caledonian University (1998), University of the West of England (1999), and Manchester Metropolitan

organized by the graduate students at Leeds;⁵ and that there would be joint participation in seminars and conferences with other bodies.⁶ Finally, there was a proposal for transforming the PKSG into an explicit Post Keynesian association. However, it was never acted on in part because of a concern for heterodox pluralism. That is, it was feared that some fellow-travelers, who have been so essential to the on-goings of the PKSG, would feel excluded and cease to participate. Rather it was suggested that an association with a name that was more broadly inviting be established as a way to maintain the Post Keynesian-heterodox community that had emerged in Britain by the mid-1990s; but such an association did not emerge until 1999 with the formation of the Association for Heterodox Economics.

University (2000). From 1998 to 2000, the PKSG had six seminars with fifteen papers presented and an average of twenty-two participants. In addition, Arestis and Sawyer in conjunction with the PKSG organized a series conferences from 1996 to 2000 that including honoring Paul Davidson (1996, 1998) and Geoff Harcourt (1997), political economy of central banking (1997), and economics of the third way (2000).

⁵ The first Post-Graduate Conference took place at Leeds in November 1996 with six papers presented, a round table discussion on post-graduate research and Post Keynesian economics, and forty-one participants. The subsequent conferences also took place at Leeds (1997 with 13 papers and 63 participants; 1998 with 22 papers; 1999 with 12 papers; and 2000 with eleven papers); and the last one took place at School of Oriental and African Studies (2001 with eight papers). The Leeds post-graduate students involved in this include Karl Petrick (University of the West Indies), Giuseppe Fontana (University of Leeds), Gary Slater (Bradford University).

⁶ This included the Stirling conference in honor of Brian Loasby (1997) and the Association for Heterodox Economics 1999 and 2000 conferences.

NEWSLETTER

January 1995

ISSUE No. 1

EDITOR'S CORNER

Greetings, and best wishes for 1995. Here is the first, experimental, issue of the PKSG Newsletter. I hope you find it interesting. Its future depends on you sending in material that would be of interest to other members of the Group. So if you like the idea of the Newsletter, please keep the material coming.

In addition to the type of information provided below, details of your own research interests would be most welcome. The PKSG has been asked for this information by other European groups; please send this information to Adrian Winnett at the University of Bath (fax 0225)826381; e-mail A.B.Winnett@bath.ac.uk). A compilation of the information will be published later in the newsletter. In addition, if you have presented a paper to the PKSG and it is published, or forthcoming, please let Adrian know (the information is needed for the report on the PKSG to the ESRC); again newsletter readers would be interested, and the information will be published here.

I am grateful to Fred Lee for providing us with an article for this first newsletter. He has some hard-hitting, and controversial, things to say about the future of Post Keynesian economics in Britain. If you would like to respond to this, or to express views on other subjects, I will be happy to publish letters in future newsletters. In addition, if you have an idea for a short article for the newsletter, I would be most interested to hear from you.

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The Death of Post Keynesian Economics?

As is well known to members of the Post Keynesian Study Group, I have carried out a survey of British economists on the possible impact of the 1992 Research Assessment Exercise (RAE) on the teaching of non-mainstream economics in both the new and the old universities. Nearly 400 economists (including approximately 100 non-mainstream economists) from 79 universities answered and returned the questionnaire. The overriding impression one receives when scanning the answers is that, by the year 2020, there will be virtually no Post Keynesian economists[1] teaching in universities in the United Kingdom. The reasons for this depressing impression are the subject of this article.

For the purpose of this article, I will focus on those 63 universities from which Post Keynesian economists responded to the questionnaire. Over the past three years, these universities have appointed approximately 250 economists, of which about 30 (or 12%) were Post Keynesian economists. Further, only 17 of the 63 universities appointed non-mainstream economists, with five universities making the majority of the appointments. In terms of hiring practices, most of the universities are short-listing and selecting candidates based primarily on their possible mainstream contributions for the RAE. In addition, the major requirement for appointment to one of the numerous professorships and chairs that have been advertised by these universities in the last twelve months is quite simply 'contributing at the leading edge of mainstream economic theory' or thereabouts. With hiring practices favouring mainstream economists and the most senior hiring going nearly exclusively to mainstream economists, combined with the miniscule hiring of junior Post Keynesian economists, it is only a matter of time before Post Keynesian economics simply ceases to exist - there literally will be no Post Keynesian economists around to teach Post Keynesian economics when the present group of Post Keynesians eventually retires by 2020.

What are the reasons for this gloomy forecast? Perhaps many could be cited, but I am going to focus only on one - the lack of compulsory and optional Post Keynesian economics courses. A quarter-century ago, social and political conditions, combined with the capital controversy and the rehabilitation of the surplus approach and Keynes' economics, produced a revolt against mainstream economics. Out of the various 'radical' study groups that sprang up during these years of free thinking came Post Keynesian economics and many of the current-day Post Keynesian economists. However, it does not appear that this intellectual revolt against the mainstream led to the inclusion

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of Post Keynesian economics within the undergraduate curriculum. Specifically, less than 15 of the 63 universities have compulsory Post Keynesian courses, many of which are courses in history of economic thought as opposed to, for example, courses in Post Keynesian price theory. This means that there is virtually no general demand for Post Keynesian economists and, more specifically, no demand for Post Keynesian micro and macro theorists. This also means that students take three or four years of core courses including mainstream macro and micro theory without any significant introduction to, or training in, Post Keynesian economics. In fact, there is a strong feeling among a number of Post Keynesians that it is *wrong* to teach students virtually any Post Keynesian economics in their core courses. Therefore it is not surprising that the demand for optional Post Keynesian courses is declining among undergraduates; nor is it surprising that there is not a large demand by undergraduates to take Post Keynesian post-graduate courses. Therefore it is not surprising that the lack of Post Keynesian applicants was given as a reason by many universities for not hiring Post Keynesian economists. Consequently, by denigrating the intellectual value of their own theoretical views, and therefore not teaching it to their students in place of mainstream theory, it appears that Post Keynesian economists are committing paradigm suicide.

Once the initial conditions which gave rise to a new paradigm have passed, its academic success depends almost completely on whether students are inculcated with that view. Mainstream economists know this to be the case, and that is why they insist that all students studying economics only study neoclassical theory in core theory courses, and why they attempt to eliminate Post Keynesian optional courses - if students read, hear and speak no evil they will become 'proper' economists. As bizarre as it may seem, many Post Keynesians actively assist in their own intellectual death by agreeing with the mainstreamers that students should only be taught neoclassical economic theory in the core theory courses as well as throughout the rest of the curriculum. If the extinction of Post Keynesian economics is to be avoided, it is necessary that Post Keynesians realise that the glories of the capital controversies and other events of the revolting past have no attraction for students who were born after the controversy ended and whose historical memory has been truncated by Tory education to the last five years. Rather Post Keynesians must take the controversial steps of eliminating mainstream economics from their own courses and of attempting to teach Post Keynesian economic theory on core theory courses. Without taking these personal steps, there will be no future for Post Keynesian economics and the epitaph on its tombstone will read: Death by Failure of the Will to Live.

■ Fred Lee
De Montfort University

[1] Although non-mainstream economics covers many different strands of thought, such as Post Keynesian economics, Marxian economics, Sraffian economics and evolutionary economics, most non-mainstream economists have been influenced by more than one of them. Thus, for the purpose of this article, 'Post Keynesian' will be used as a generic short-hand term for 'non-mainstream'.

CONFERENCES/SEMINARS

THE GERMAN CURRENCY UNION OF 1990: A CRITICAL ASSESSMENT

Clyne Castle, University of Wales, Swansea, 16-17 March 1995

For further details please contact Ms Sara Morgan, European Business Management School, University of Wales, Swansea, Singleton, Park, Swansea SA2 8PP; tel: 0972 295179; fax: 0792 295626.

EAEPE MONETARY STUDY GROUP

First seminar June 1995, Rome

For further details, please contact Marcello Messori, Dipartimento di Economia e Territorio, Università degli Studi di Cassino, via Isonzo 42, 00198 Roma; tel 39-6-853904; fax 39-6-4404572

KEYNES, KNOWLEDGE AND UNCERTAINTY II

Leeds, 16-17 March 1996

For further details please contact John Hillard, School of Business and Economic Studies, University of Leeds, Leeds LS2 9JT; tel 0532 332614; fax 0532 33240.

VISITORS

UNIVERSITY OF KENT

John and Wendy Cornwall, Dalhousie U, PK ecs, Feb-Mar 95

UNIVERSITY OF CAMBRIDGE

Prof A J Fisher, U of Adelaide, electoral systems, Jan-Dec 1995

Prof Ritsuko Futagami, Kyoto Sangyo U, health ecs, public ecs; 1994-95

Prof Yoshihiko Hakamata, Chua U, Keynesian ecs, Oct94-Mar95

Prof Osamu Ishida, Kyusku U, Internat. ecs, Oct94-Mar95

Prof Kimiyoshi Kamada, Chukyo U, public ecs and macro, 1994-95

Dr Ajit Karnik, U of Bombay, changing role of Indian state, Jan-Jul 95

Prof Marko Lah, U of Ljubljana, Ricardo, Malthus, Keynes, Jul-Aug 95

Ms Stefania Menduno, U of Rome, internat. business, 1994-95

Dr Antonio Nicita, U of Siena, 1994-95

Dr Ray Petridis, Murdoch U, macro and labour, Jan-Jul95.

Prof Osamu Ueda, Momoyama-Gakuin U, industrial relations, 1994-95

Prof Miloslav Vosvrda, Charles U, Czech Rep, macro, May-Sept 95

Prof Xiaoping Wang, Jiangxi Inst of Fin and Ecs, th.& reform in China, Sept94-Apr95

Prof Chong Koun Won, Hankuk U, Korea, Jan-Dec 1995

Prof Yeo Chang Youn, Seoul Nat U, forest ecs & environmental conservation policy, 1994-95

PKSG MEETING 26 OCTOBER 1994: ABSTRACTS OF PAPERS

GARY DYMSKI

The Social Construction of Creditworthiness: Asymmetric Information and the Trivialisation of Risk

This paper develops a methodological critique of the asymmetric information microfoundations of New Keynesian economics. It argues that the asocial and axiomatic treatment of risk in New Keynesian models of the credit market trivialises the relation between principle and agent. The paper calls for a richer microfoundational treatment which recognises that the 'rules' of principle/agent games are moulded, in many cases, by principals' exercise of power over time. When the power imbalance is too large, structural determinants heavily outweigh strategic interactions in deciding any such game's outcome. Several examples of recent credit-market crises are used to show the inadequacy of asymmetric information and strategic interaction alone in capturing the dynamics of these situations.

SHEILA DOW:

Knowledge, Information and Credit Creation

The purpose of this paper is to locate New Keynesian credit theory in relation to monetary theory in general, and to examine the argument that there is a considerable overlap with Post Keynesian credit theory. New Keynesian theory focuses on the asset side of banks' balance sheets, using a loanable funds approach. Banks are distinctive as potential providers of credit, in contrast to both the Modigliani-Miller and New Monetary Economics approaches. The result is a theory explaining why credit may at times be less than full capacity in terms of loanable funds; there is no scope for excess credit creation. The origin of credit rationing lies in information imperfections, where the benchmark is full knowledge of risk. This is contrasted with Post Keynesian theory of knowledge, expressed in a Minsky framework, whereby banks and firms both make risk assessments with necessarily incomplete knowledge, and decide on the supply of and demand for loans on the basis of their respective liquidity preferences. Then the volume of credit may be judged to be either, insufficient or excessive, in relation to the requirements of production. Both New Keynesian and Post Keynesian credit theory give credit a causal role in the macroeconomy, but the explanations for the determination of the volume of credit are quite different.

NEWS OF PKSG MEMBERS

BRIAN LOASBY has been made a Fellow of the British Academy

ANDREW TYLECOTE has been appointed to the personal Chair of Economics and Management of Technical Change at Sheffield

FRANCIS GREEN will take up a chair at Leeds University in January

JOHN HILLARD:

New Keynesian Economics: yet more old wine in new bottles

According to classical theory, if the economy is composed of perfectly informed optimisers operating within a system of unhampered markets, then relative price movements guarantee the maintenance of an equality between the demand for, and supply of, commodities. The New Keynesian strand derives its disciplinary coherence from classical method. The classical Keynesian response to the rational expectations hypothesis has evolved ever more sophisticated models of optimising behaviour which result in non-market clearing. The existence of multiple equilibria, the influence of social norms, co-ordination failures, principal-agent, selection and moral hazard problems, incentive-compatibility constraints, imperfect competition and the impact of hysteresis have all been posited to explain the lack of congruence between agent rationality and market-clearing outcomes. By contrast, the effective demand approach, associated with J M Keynes's *General Theory*, represents a decisive break from the fiction that the economy, even if it is left to its own devices, behaves in the manner claimed by the self-adjusting school.

J BARKLEY ROSSER JR:

A Complex Systems Dynamics Perspective on Post Keynesian and New Keynesian Economics

Complex systems dynamics arise from nonlinear differential equations systems and involve either chaotic dynamics with sensitive dependence on initial conditions, non-chaotic strange attractors, or fractal basin boundaries. Such systems possess fundamental uncertainty in which rational expectations cannot be formed and are thus broadly consistent with most Post Keynesian approaches.

Neo-Keynesian models of the IS-LM type are linear and thus not complex. New Keynesian models can be divided broadly between the 'weak' and the 'strong'. The former depend on information asymmetries and other such 'imperfections'. They are linear, non-complex, and less compatible with the broad Post Keynesian perspective. 'Strong' New Keynesian models use a full rational expectations assumption to show its impossibility in models with nonlinearities generating multiple equilibria, coordination failures, and complex dynamics. This type of New Keynesian model is consistent with the broad Post Keynesian approach.

Post Keynesian approaches include the linear 'fundamentalist' model of Davidson, drawing directly from Keynes, which is non-complex. Other Post Keynesian approaches are consistent to varying degrees with complexity and Strong Neo Keynesianism. These include: the fundamental uncertainty model (Robinson, Minsky), the megacorp model (Kalecki, Eichner), the class struggle model (Goodwin, Pohjola), the hysteresis model (Cross, Arestis), the nonlinear investment function model (Kalecki, Kaldor, Hicks, Goodwin), and the evolutionary institutionalist approach.

PKSG MEETING 9 DECEMBER 1994: ABSTRACTS OF TWO OF THE PAPERS

BRIAN LOASBY:

Ludwig Lachmann's Subjectivist Perspective

Lachmann insisted that human action depended on individual purposes, understanding, expectations, and imagination, all of which changed over time. Models of market equilibria were as misleading as models of planning; market processes had no determinate end, and could not guarantee coordination. Competition implied incompatibility between rival plans, and quantity adjustments in one market could create multiplier effects in others. As in Keynes' entrepreneur economy, different agents have different ranges of action, and merchants' markets - notably financial markets - operate in a different, and sometimes conflicting, fashion from the fixed-price markets of modern manufacturing. Though Keynes' devotion to effective demand restricted his subjectivism, there was, in Lachmann's view, much common ground between Keynes and Austrian subjectivists.

SUSAN PASHKOFF:

On a Change in the Notion of Stability in Neoclassical Economic Theory

The paper argues that a change has occurred in the nature of the kind of stability examined in neoclassical theory from that concerned with global static stability to that of local dynamic stability. The notion of global static and dynamic stability was concerned with the relationship between the notion of stability and that of the competitive equilibrium position. In fact, the traditional competitive equilibrium was characterised by the three properties of existence, stability and uniqueness. The global stability and uniqueness of the equilibrium position were brought about by the satisfaction of the so-called Hicksian conditions, which entailed the dominance of the substitution effect over the income effect. The inability of the theory to eliminate the general equilibrium income effect has resulted in the movement to the examination of dynamic local stability proofs, where the Hicksian conditions are irrelevant for the examination of convergence to the equilibria. The existence of multiple equilibrium as a common occurrence and the acceptance of this in neoclassical theory raises the question as to the relationship between substitution and the equilibrium positions achieved.

Book Contents

Keynes, Knowledge and Uncertainty, S C Dow And J Hillard(eds), Elgar, Forthcoming Spring 1995

BRIAN LOASBY	Acceptable explanations
VICTORIA CHICK	'Order out of Chaos' in economics?
JERRY RAVETZ	Economics as an elite folk-science
MARY FARMER	Knowledgeability, actors and uncertain worlds
TONY LAWSON	Economics and expectations
PAUL DAVIDSON	Uncertainty in economics
SHEILA DOW	Uncertainty about uncertainty
ANNA CARABELLI	Uncertainty and measurement in Keynes: probability and organicness
ROY ROTHEIM	Keynes on uncertainty and individual behaviour within a theory of effective demand
BILL GERRARD	Probability, uncertainty and behaviour: a Keynesian perspective
JOCHEN RUNDE	Risk, uncertainty and behaviour: a Keynesian perspective
ATHOL FITZGIBBONS	Keynes' policy model
TED WINSLOW	Uncertainty and liquidity-preference
JOHN HILLARD	Keynes, interdependence and the monetary production economy
PETER EARL	Liquidity-preference, marketability and pricing
NINA SHAPIRO	Markets and mark-ups
MALCOLM SAWYER	Comment on Earl and Shapiro
ARJO KLAMER	The conception of modernism in economics: Samuelson, Keynes and Harrod
JACK AMARIGLIO and DAVID RUCCIO	Keynes, postmodernism, uncertainty
ROGER BACKHOUSE	Should economists embrace postmodernism?
ROBERT SKIDELSKY	Keynes for today

NEWSLETTER

April 1995

ISSUE No. 2

EDITOR'S CORNER

Greetings once again. Thank you to those who have sent in material for this second newsletter. Please keep it coming. I am conscious that there are bound to be all sorts of items of interest which I don't happen to come across, or which are not sent in for the newsletter; please help me to make the coverage more complete.

As well as providing information for members of the study group, it has become clear that the newsletter is a good medium for publicising the group. If you know of anyone who might be interested, or if you are going to a conference, please make copies of your newsletter and pass them around. In turn, the newsletter is a good vehicle for publicising other groups, conferences, newsletters etc of interest to PKSG members. So if you want something of that sort publicised, or have contacts who would like to publicise their activities to the PKSG, please let me know.

I am particularly interested in using the newsletter as a vehicle for fostering contacts with other Post Keynesian groups. So I am happy to be able to include a piece on the Dutch-Belgian Post Keynesian group in this issue, along with an account of the PKSG itself, and plan to have pieces on other groups in future issues. If you already have contacts with other Post Keynesian groups, please let me know and I'll be happy to include material on them. In addition, it is important in fostering relations with other groups that we have a list of PKSG members' research interests available to provide to other groups (who will do likewise for us), so that individual researchers can build up international contacts in their own research areas. So could you please complete the tear-off slip at the end of the Newsletter and send it to Adrian Winnett, or send him the information on e-mail.

Speaking of E-MAIL, many members now receive notices and this newsletter on e-mail. But for those who don't, if you have an e-mail number, please pass it on to the PKSG Secretary, Adrian Winnett, on A.B.Winnett@bath.ac.uk, either by e-mail or using the tear-off slip at the end of the newsletter. We are trying to get as many members as possible onto e-mail. It is obviously cheaper to provide the newsletter on e-mail than in hard copy. But in addition, if we had a sizeable UK Post Keynesian network on e-mail, there would be all sorts of possibilities: for exchanging abstracts of work-in-progress, views on particular topics of interest etc. This would allow the aims of the PKSG (outlined in the piece on page 2) to be pursued in new and hopefully fruitful ways.

If you don't yet have an e-mail number, and this is because you resist such things (rather than not having access to a network), let me tell you as one who used to be like that, e-mail is BRILLIANT. I can become quite boring on the subject of how much more fun it is than writing letters, or trying endlessly to get someone on the phone (in a different time-zone)... Human contact is clearly superior, but failing that, chatting on e-mail, resolving intellectual disputes in a few exchanges, etc, is definitely the next best thing. So please consider taking the plunge, and let Adrian know your number.

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The Future of Post Keynesianism

In the first issue of the newsletter, Fred Lee put forward a pessimistic future for Post Keynesianism. The institutional system is seen as the key in Lee's view. If departments of economics are under pressure to hire mainstream economists whose work is publishable in the 'core' journals, then Post Keynesians will not be appointed and the approach will wither.

While there is the tendency at work which Lee identifies, I wonder if it is as all-pervasive as he supposes. There are other departments than those of economics. In the UK for example, departments of sociology and of business (very often involving people trained in economics) are taking an interest in economic matters concerning the firm and the nature of economic development (generally local development). Avoiding rigid disciplinary boundaries and scholarly elitism is surely the right road for Post Keynesians. Moreover many mavericks lurk in the former polytechnic departments of economics. There is in addition the continuing possibility of defections from neoclassicism. Many Post Keynesians did not start in their undergraduate days with a Post Keynesian training. Most have looked at the neoclassical approach and found it wanting; they have adopted a Post Keynesian approach as an alternative which seemed more close to reality and more satisfying. This process is not likely to decline, although always involving a small fraction of those trained in the neoclassical paradigm.

An article which may have been missed by most Post Keynesians in the UK is 'The Future of Post Keynesianism in Canada', *British Journal of Canadian Studies*, 9(2), 1994, written by two political scientists, M Howlett and M Ramesh. The authors define Post Keynesianism around state involvement in the economy, and in particular around an endorsement of incomes policy. Post Keynesians in the UK may be both startled and entranced to find that 'Post-Keynesianism is emerging rapidly as the dominant paradigm in the theoretical discourse on Canadian political economy in the 1990s' (p.295). Lest this promote an undue surge of optimism it must be noted that the authors consider this consensus unlikely to have any effect on policy in Canada, or indeed to last. Neo-liberalism is still firmly in control of the policy agenda there as here.

I do think that this article poses a question about the focus of UK Post Keynesianism. Can UK Post Keynesianism be identified with a coherent policy agenda? Related to this question is the breadth of coverage of Post Keynesianism, and thus the scope for policy prescription. Naturally enough, Post Keynesians have had an orientation towards macroeconomics, their major inspiration being the work of Keynes. However, an alternative paradigm to the mainstream has to have a wider range than macroeconomics and monetary economics. Such range is provided by the work of Lee himself, and by others such as Peter Earl. But the emphasis as reflected in Post Keynesian publications is still on the areas of macro, money and methodology. (See V. Chick, 'Is there a case for Post Keynesian Economics?', *Scottish Journal of Political Economy*, 42(1), Feb 1995.) Further, even in the macro and money fields, explicit policy recommendations are thin on the ground.

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PKSG

The call I would make is for Post Keynesians to look to the applied and policy-oriented aspects of the discipline as well as the methodological and philosophical, important as these latter undoubtedly are in the struggle to establish a different view of the world. One of the great strengths of neoclassical economics, it has to be recognised, is its policy applicability. If there is a problem in any part of the world relating to industry, economic development, finance, housing, etc, it is always possible to construe a policy argument using the tools of neo-classical economics. This cannot be said of Post Keynesian economics in any other than the macro and monetary sphere.

Finally, Post Keynesianism is not the only non-neoclassical approach. Evolutionary economics has a thriving organisation with a European base and an interdisciplinary orientation, albeit centred on economics. In a review article forthcoming in the *Scottish Journal of Political Economy*, Geoff Hodgson argues that evolutionary economics is now looking at a division between those who wish to continue with a formalistic approach, building mathematical models, and those who wish to abjure formalism as unsuitable to the evolutionary metaphor. An equivalent debate could be conducted by Post Keynesians. Looking outwards to other non-mainstream groups may enrich the agenda, and also draw new recruits from parallel approaches.

There might also be an inspiration to be gained from the political economy tradition. In particular, the concern for policy relevance contained in the Scottish political economy tradition could be emulated. While it is relatively easy to gather together on a platform of not being neoclassical, it is harder to build a coherent alternative paradigm. For my part I do not think there is necessarily a conflict between Post Keynesianism, Evolutionary Economics, Scottish Political Economy, Canadian Political Economy, etc. The notion of tolerance is one which has considerable credibility within Post Keynesian circles, drawing on Post Keynesian philosophical foundations. With tolerance for the legitimacy of what others have tried to do it is possible to move forward with beneficial enrichment arising from contacts between the various non-neoclassical approaches. For Post Keynesianism, however, I would suggest that this requires a broadening in terms of areas of study and a more conscious awareness of the policy implications of theory.

Alistair Dow
Glasgow Caledonian University

Letter to the Editor

Dear Sheila,

I enjoyed receiving and reading your newsletter. Unfortunately I have to accept Fred's thesis about the euthanasia of PK economists. Yet, I believe that the issue is political. In other words, without struggle for pluralism we will always lose. As soon as we start to accept the rules of the games, such as 'publish in the top 10, otherwise you are out...' etc, then we get squashed independently of quantity and quality of publications. At the same time a passive acceptance of the present situation, while working without falling prey to a 'top 10' syndrome, is equally useless. This has been my experience at the University of Sydney. It is necessary to organise in order to fight.

At a meeting of the European Society of Evolutionary Economics held in Bergamo in June 1994, Pasinetti in his opening address stressed precisely the absence of pluralistic attitudes among mainstream economists. He read from an article, by Kirman, published in the *Newsletter* of the Royal Economic Society, in which Kirman talked about measuring excellence only in terms of neoclassical journals. That article was not just an opinion but a submission to the European community on how to evaluate and support research. It is necessary, in my view, to politicise the issue of pluralism given that academic work will receive little recognition.

Yours, etc, Joseph Halevi, Université de Grenoble.

17 January 1995

The UK Post-Keynesian Economics Study Group

The Post-Keynesian Economic Study Group was established in October 1988 by Victoria Chick and Philip Arestis with a grant from the Economic and Social Research Council to cover the travel expenses of participants. We have a meeting at least once a term, at which normally three papers are presented and discussed. In addition the Group has organised four conferences to date, and a series of volumes of papers published by Edward Elgar, and the proceedings of the 1993 Keynes Seminar to be published by Macmillan. The purpose of the Group is to provide a forum for the presentation and active criticism of research along Post-Keynesian lines, to promote contact among those of similar views, and thereby to encourage still further research and dissemination of results amongst interested specialists.

Newsletters

The Marshall Studies Bulletin is a yearly newsletter whose aim is to circulate information on Alfred Marshall and on Marshallian studies. Contributions (articles, announcements, book reviews and curiosities) are to be sent to: *Marshall Studies Bulletin*, Dipartimento di Scienze Economiche, Via Curtatone, 1-50123 FIRENZE, Italy. For free copies of the *Bulletin*, please write to Miss Philomena Guillebaud, Marshall Library of Economics, Sidgwick Ave., Cambridge CB3 9DB.

International Economic Association Newsletter, for further information, please contact the IEA Secretariat, 23, rue Campagne Première - 75014 Paris - France.

Journals

The Review of Social Economy. From Spring 1995 the *Review* will be published by Routledge. It is the journal of the Association for Social Economics, which was formed over 50 years ago 'to advance scholarly research and writing about the great questions of economics, human dignity, ethics, and philosophy.' The *Review* is edited by John B Davis, Dept of Economics, Marquette University, Milwaukee, WI 53233, USA, fax (414) 288-1660, e-mail: 6286davisj@vmsa.csd.mu.edu. The UK board members are Philip Arestis and Geoff Hodgson. The annual subscription in UK/EU is £32.00.

New Books

Peter Earl, *Microeconomics for Business and Marketing: Lectures, Cases and Worked Essays*, Elgar, 1995

John King, *Conversations with Post Keynesians*, Macmillan, 1995.

The Dutch-Belgian Association for Post-Keynesian Economics

The Dutch-Belgian Association for Post-Keynesian Economics (APKE) was formed in 1980 and currently has about 110 Dutch members and 20 Belgian members. Its main activities include the organisation of an annual international conference, which normally takes place in November; an annual seminar on a topic related to the same year's conference theme; and a Newsletter.

The APKE wants to provide 'a platform for critical reflection on modern economic thought'. Its current members are interested not only in post-Keynesian thinking, but also in Marxian and institutional-behavioural perspectives on reality. The Association's main aim is to promote and stimulate innovative approaches in these areas of economic thought. APKE has strong empirical interests, which are reflected in the conference themes. The annual conference and seminar normally focus on one particular theme which is considered from one or more of the above-mentioned perspectives. Past themes have included Economic Power, Keynesianism Today, A Dual World Economy, Post Keynesian Thought in Perspective, International Economic Order, Environment, Economy and Sustainable Development, Rethinking the State - Scope and Limits of National Policy in a World Economy, Dynamics of the Firm, and Labour Migration. The 1995 conference on Economics and Evolution will be held in Utrecht in early November. Since 1992 the conference proceedings have been published by Edward Elgar.

Anyone interested in the activities of APKE may contact one of the members of the board: Joe Brenner (Univ. of Utrecht), Julien van den Broeck (Univ. of Antwerpen), Frans Buelens (Treasurer for Belgium, Univ. of Antwerpen), John Groenewegen (Erasmus Univ. Rotterdam), Bob Gouzwaaard (Chair, Free Univ. Amsterdam), Carla Naastepad (Treasurer for Netherlands, Erasmus Univ. Rotterdam), Servaas Storm (Newsletter, Erasmus Univ. Rotterdam) and Emiel Wubben (Secretary, Erasmus Univ. Rotterdam).

Abstracts of PKSG Seminar Papers

MEETING 12 DECEMBER 1994

Alan Freeman, *The Dynamics of Price and Value: A Non-equilibrium Approach*

This paper argues that the Walrasian equilibrium tradition is a fundamentally flawed foundation for economic dynamics; the assumption of market clearing and constant prices cannot be removed and is responsible for most of the theory's well-known shortcomings, in particular the absence of money, the assertion of perfect knowledge, the lack of a market adjustment mechanism, the assumption of actually equal profit rates and the absence of technical change. The same weaknesses permeate the traditional formalisation of Marx's value theory. The paper presents a new formalisation of this theory without the assumption of equilibrium. On this basis it establishes a general formula for the formation of price from abstract labour, assuming exchange at general market prices. This demonstrates both Marx's two equalities to be true under all circumstances. The paper establishes that, contrary to the results from static formulations, the rate of profit can and does fall even though productivity improves continuously. Finally it establishes the material basis for liquidity preference and suggests a value-theoretic account of the mechanism behind periodic booms and slumps.

MEETING 3 FEBRUARY 1995

Robert Evans, *How Do They Do That? The Role of Econometrics, Extrapolation, and Judgement in the Economic Forecasts of the Seven Wise Men*

For many social scientists, and not just economists, the idea of identifying mechanical laws or rules underlying human action has had a strong appeal. The paper examines how macro-econometric modellers attempt to identify such laws and makes two points: one negative and one positive. The critical point is that macro-econometric modelling's scientific appearance is little more than skin deep. The search for precise and stable quantitative relationships with which to forecast the future accurately is, as Keynes recognised, a search for the Holy Grail. However, I do not want to argue that macro-econometric modelling is of no value whatsoever, and this is the positive point. Economic modellers and forecasters probably know more about the economy than anyone else, and possess this knowledge because they have spent most of their working lives trying to model it. Constructing, maintaining and up-dating macro-econometric models compels a small group of people continuously to monitor the economy and, perforce, to become experts about it. The argument is illustrated in two parts. First, I attempt to replicate some econometric work done by Giles Keating in the early 1980s and examine how equations estimated using data up to 1980 have been altered by the events of the following

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Conferences

- *Conference on Money, Financial Institutions and Macroeconomics, York University, Toronto, Canada, 10-12 April 1995.* For more details contact Avi Cohen (ecchair@vm2.yorku.ca) or John Smithin (jsmithin@dept.econ.yorku.ca).
- *History of Economic Thought Autumn Conference, Trinity College Dublin, 6-8 September 1995.* Proposals for papers (abstract of up to 250 words) to Antoin Murphy, Dept of Economics, Trinity College, Dublin 2, Ireland. Fax (3531)6772503.
- *International Economic Association, Eleventh World Congress, Tunisia, 18-22 December 1995.* For further information and to submit proposals for papers for history of thought sessions, contact Heinz Kurz, Dept of Economics, University of Graz, Graz A-8010, Austria.
- *L'Utilitarisme: Analyse et Histoire, Association Charles Gide pour l'Etude de la Pensee Economique, Universite de Lille I, 25-6 January 1996.* Proposals for papers (3-4 pages) to be sent to Prof. A L Cot, Faculte des Sciences Economiques et Sociales, Universite des Sciences et Technologies de Lille (Lille I), 59655 Villeneuve d'Ascq CEDEX-FRANCE. Fax:20.43.66.55; e-mail: Bernard.Delmas@univ-lille I.fr
- *European Conferences on the History of Economics, Second Annual Meeting, Lisbon, 8-10 February 1996.* For further details, contact J L Cardoso, Technical University of Lisbon, Rua Miguel Lupi, 20, 1200 Lisbon, Portugal.

People

Robert Skidelsky has been made a Fellow of the British Academy.

twelve years. The aim of the analysis is to show not just the sensitivity of econometrics to the sample period used but the ways in which economists' judgement is routinely used to over-ride econometric evidence. The remainder of the paper illustrates how a macro-econometric model is used to produce an economic forecast. Drawing on the first meeting of the Panel of Independent Forecasters, I demonstrate that, in the final analysis, it is not the model which determines the forecast, but the judgement of the economist(s). The argument is illustrated by showing how a single econometric model can be used to produce forecasts consistent with any of the Seven Wise Men's individual positions.

Peter Docherty, Endogenous Money and Effective Demand

Monetary endogeneity is known to cause price-indeterminacy in neoclassical models. This result is often misinterpreted, however, and has been used in recent literature to underestimate the importance of monetary endogeneity for the successful operation of the principle of effective demand. This paper offers an interpretation of the price-indeterminacy result which indicates the importance of endogenous money for Keynesian theory. It is argued that under certain assumptions monetary endogeneity is a necessary condition for a theory of output to be characterised by the principle of effective demand and similarly that under certain assumptions a necessary condition for a theory of output to be characterised by Say's Law is that it be combined with the quantity theory of money to determine the absolute price level. Some recent discussion of the conventional nature of the rate of interest is then examined in the light of this interpretation of the neoclassical result.

Jens Holscher, The Monetary-Keynesian Approach to Economic Development: Evidence from West Germany and Central East Europe.

The West German experience of strong accumulation in the 1950s is considered to find elements for a theoretical model of economic development. The stylised facts of the post-war 'miracle' in the light of the Monetary Keynesian school of thought (the 'Berlin School') are: currency reform of 1948, crisis management of 1950/51 and the London Debt Agreement of 1953 as fundamental conditions of an undervaluation strategy. Elements of a pure theory of accumulation in Keynes' 1933 tradition of a monetary production economy are: the fundamental equations of the Treatise on Money, a Sraffa model of production and the central bank providing the budget constraint. The outcome is an export-led growth model for economic development requiring for 'monetary mercantilism'. A mental experiment on the post-socialist terrain of Central-East Europe suggests that the capital-import-type approaches exercised in Hungary and Poland are inferior conceptions compared to the Czech policy of monetary stabilisation and internal accumulation.

Name:

Address:

e-mail number:

Research interests:

Adrian Winnett, Secretary, PKSG,
Department of Economics, University of Bath,
Claverton Down, Bath BA2 7AY.

Additional Letter to the Editor

Dear Sheila,

In Issue 1 of the *Newsletter* Fred Lee advocates post-Keynesians 'eliminating mainstream economics from their own courses' and criticises post-Keynesians for 'not teaching it to their students in place of mainstream theory'. Apparently the continued success of post-Keynesian economics is dependent on students being 'inculcated with that view'.

I was unaware that post-Keynesians had produced a universally accepted body of doctrine which was available for 'inculcation'. The work of Kaldor, Kalecki, Robinson and Weintraub is important to put before students, but equally important is the critique which has been made of these writings.

A department which eliminated mainstream economics from its courses and taught post-Keynesianism *in place of*, rather than as a critical alternative to, mainstream economics would do its students a great disservice. They would be unable to engage with the opposition as they would be unaware of the mainstream's methodological approach and its deficiencies. The writings of Keynes, Kalecki, Robinson and Weintraub could not be fully understood without knowledge of its historical context and the mainstream theory against which they were rebelling.

In the social sciences, which are inevitably controversial, the real threat to the survival of radical paradigms arises from any suspicion that its enthusiasts practise academic intolerance. In *Conversations with Post-Keynesians*, John King notes that I have established a post-Keynesian department within the confines of a Business School and if there had been any suggestion that we were offering anything other than a genuinely pluralistic education to our students my efforts would certainly have been thwarted.

At De Montfort our coverage is determinedly pluralistic; we provide a full coverage of mainstream micro and macro theory, which is accompanied by a detailed critique and a presentation of alternative paradigms. Included in our core theory subjects in third year are the capital controversies, Sraffa, post-Keynesian wage and employment theory and a critique of new growth theory. Students read the work of Davidson, Kalecki, Kaldor, Robinson, Garegnani, Cornwall and Weintraub, but we ensure a careful treatment of contemporary mainstream theory in second year.

I believe that post-Keynesian economists were better advised by the editorial writer for EAEPE than by Fred Lee:
'There is a need for a more tolerant and permissive atmosphere, and for genuine, scientific competition between several rival paradigms in our discipline. In our view, economics should retain its standards of rigour but be more open and pluralistic...Such pluralism should not undermine the standards of rigour; an economics that requires itself to face all the arguments will be a more, not a less, rigorous science.'
(EAEPE Newsletter no.6, July 1991)

Peter Riach
De Montfort University
24 March 1995

are presented in section III. Its possible links to the NS approach are discussed in section IV and a model combining these aspects of the two approaches is suggested. Section V is the conclusion with suggestions for further development.

Shu-Chin Huang, Economics Division, Leeds University Business School

Industrial Policies for Research and Development: A comparative study of the Electronic Equipment and Components Industries in the U.S., Japan, and Britain

The purpose of this paper is to show how a small budget for research and development (R&D) can effectively increase R&D activities by using a comparative study of the industrial policies for R&D in the Electronic Equipment and Components Industries of the United States, Japan and Britain since 1981. By focusing on the R&D policies of the two leading countries- the U.S. and Japan, in the Electronic Equipment and Components Industry, the paper turned to examine policies in the United Kingdom. Evidence suggested that the main problem of the UK industrial policies for R&D was not an insufficient R&D investment by the government but an under-investment by the private sector. Tax reforms and low interest rates are seen as major solutions to increase R&D investment by the private sector.

Julia A Smith, Research Assistant, Centre for Research into Industry, Enterprise, Finance and the Firm (CRIEFF), Department of Economics, University of St Andrews

Accounting for Growth: Strategic Financial Management in the New Small Firm

The paper investigates financial management directed towards funding growth in the new small firm in Scotland. It makes appeal to two sources of first-hand data, gathered using fieldwork methods during the period 1993-97. The first evolved from interviews with 150 owner-managers of micro firms using an administered questionnaire (AQ); and the second, from a subset of 17 of these respondents, using a semi-structured interview schedule (SSI). The paper investigates: (1) aims and ambitions of owner-managers; (2) initial financial structure; (3) preferred alternatives for funding growth; (4) evolving financial structure; and (5) current position. It is shown that those owner-managers who start with a superior business idea and express that idea clearly and efficiently, are also those who will attract more external funding, and subsequently perform better. In addition, they tend to have more sophisticated methods of managing finances and accounting information, using forecast figures rather than historical data, and working from sales and profit margins rather than merely cash flow.

Philip Stevens, Linacre College, University of Oxford

Asymmetric employment behaviour: preliminary evidence from micro data

This study investigates the existence of asymmetries in the dynamics of employment behaviour in a panel of over six-hundred UK manufacturing firms between 1982-94, as highlighted by lagged dependent variables in an estimated labour demand function. The results indicate that there is some evidence of asymmetric employment behaviour, suggesting that firms' employment behaviour will be sharper when they expect the demand for their products to fall. However, these results do depend upon how the asymmetry is modelled. There is possible evidence of labour-hoarding in periods of general economic depression.

Claudio Piga, Department of Economics, University of York

Competition in a duopoly with sticky price and advertising

The paper develops a differential game of a duopoly with sticky price whereby firms can also invest in market-enlarging promotional activities. The linkages between output and advertising optimal strategies are discussed in relation to two different equilibrium concepts, namely open-loop and feedback. The main result of the paper shows that the prediction in Fershtman and Kamien (1987) about the output strategies in both equilibria does not always hold true when advertising is also taken into account. More precisely it is shown that the open-loop output rate can be greater than that in the feedback equilibrium. However, the feedback price is always lower than the open-loop one because firms invest more in advertising when they can commit themselves to a strategy decided at the outset of the game which cannot be subsequently changed.

STREAM 2: Developing Alternatives to Orthodoxy

Mathew Forstater, Jerome Levy Economics Institute

Government as Employer of Last Resort: Outline of a Proposal for Full Employment with Price Stability

In a period characterized by rapid technological change and deficit reduction on a world scale, attention must be paid to unemployment rooted in both the labor-displacing effects of technical change and deficiencies of aggregate demand. Furthermore, careful attention to issues of income distribution highlight the interaction between these two types of unemployment. For example, labor displacing technological change can result in income distribution effects that can set off, or exacerbate, an effective demand crisis.

The paper argues that programs for full employment at the national level based on the government as employer of last resort can provide for zero involuntary unemployment with acceptable price stability. The theoretical basis of the proposal combines elements of Post Keynesian monetary theory, Lernerian functional finance, Knapp's Cartalism, and a Marxian-Kaleckian analysis of the role of the reserve army of the unemployed (and excess capacity generally). The proposal and the discussion of its analytical implications also incorporate aspects of Keynes-Shackle uncertainty, Kaldorian cumulative causation, and the WPA-style Public Works proposals found in Hyman Minsky's later work.

One of the strengths of the plan is its simplicity. Government hires anyone willing and able to work at a basic public sector wage who cannot find employment in the private sector. Such a proposal must face a number of challenges today. First, it must address current fears concerning national budget deficits and the national debt. Second, it must deal with the structural implications of eliminating the 'flexibility' provided to the economic system by the existence of a pool of unemployed workers and excess productive capacity. Third, it must be consistent with price stability. The paper will address these and a number of other related issues. Among the questions addressed are the following:

1) *How can a full employment program enhance productivity?*

Public works projects that, for example, revitalize crumbling infrastructure, protect the natural and social environment, or improve education and medical care may have dynamic effects on the economy through reducing costs for the private sector as well as eliminating social costs.

Furthermore, skill deterioration associated with unemployment can be reversed by providing work experience and training, and offsetting the negative psychological impacts of unemployment. Economic expansion resulting from a full employment program can also result in the cumulative benefits of technical advance inherent in the positive feedbacks between economic growth, technological change, and aggregate demand.

2) *Can a full employment program assist in stabilizing expectations that can otherwise threaten private investment?*

Investor knowledge of government commitment to an anti-recessionary policy program may limit the negative impact of uncertainties regarding future demand. The Employer of Last Resort approach also addresses Austrian-style critiques of government policy based on the 'knowledge problem'; many of the uncertainties regarding government estimates and measurements, and regarding private sector responses to 'indirect' government policies (e.g. 'incentives') are by-passed with a simple but direct government public employment plan.

3) *How can a full employment program avoid the structural rigidities associated with high levels of employment and capacity utilization?*

As long as the basic public sector wage does not compete with the private sector, economic expansion can draw of the public sector "pool." Basic public sector employment thus serves as a 'buffer-stock' of workers, providing flexibility without the social and economic costs of unemployment. When private sector activity grows (declines), basic public sector employment contracts (expands).

4) *Can a full employment program avoid inflation?*

As long as the basic public sector wage does not compete with the private sector, it should not lead to excessive upward pressures on money wages. (There may be an initial increase however, especially as regards the social policy decision concerning the standard of living associated with basic public sector employment--thereby defining the line below which no individual or family is permitted to fall.) As long as the public sector workers area potential labor supply available in the case of increased private sector demand for labor, the program should not result in bottlenecks and rigidities that can be inflationary. To the extent that a full employment program allows direct and indirect cuts in other government programs such as assistance to the unemployed (or expenditures countering the negative consequences of unemployment, e.g., crime), the expenditure on the full employment program will be partially offset by decreases in other expenditures. To the extent that the full employment program enhances productivity, this will also counter inflationary tendencies.

The Introduction and Conclusion will also touch on the costs of unemployment, the arguments for full employment, make some brief references to historical examples of similar programs, and situate this proposal in context of current policy debates.

Sergio Rossi, University College, London

A book-keeping analysis of a monetary economy: some basic theoretical elements

The aim of this paper is to show the way in which money enters the real world and is used in conformity with the logical rules governing modern banking. In particular, the first section stresses the vehicular nature of (bank) money and its endogenous character in providing the objective numerical measure of economic transactions. Bernard Schmitt and Alvaro Cencini are the authors who have developed the deepest analytical insight into both banking activity and the workings of modern macroeconomic systems. Referring to their skillful analysis, whose historical foundations go back to the works of Smith, Ricardo, Marx, Walras, and Keynes, it can be noted that money flows back to its point of departure at the very moment it is emitted, since each payment entails the creation-destruction of the immaterial vehicle necessary to circulate goods among economic agents. Further, the new conception of money gets rid of all kinds of

subjectivistic approaches to monetary economics, for it logically explains the purchasing power of money by relating it to the production process (section 2). Being the result of the monetization of total costs of production, money-income is the avatar of real output, its factual *alter ego*.

David A. Spencer, Economics Division, Leeds University Business School

The demise of radical political economics? An essay on the evolution of the theory of capitalist production

The paper charts the historical evolution of American radical economics. On its inception in the late 1960's, American radical economics aimed to provide an alternative to neoclassical orthodoxy. Neoclassical economics was criticised for its neglect of the social and historical dimensions of production, and pilloried for its failure to shed light on the asymmetric power relationship between workers and capitalist employers. The publication of *The Capitalist System* (Edwards, Reich and Weisskopf, 1972), and *Schooling in Capitalist America* (Bowles and Gintis, 1976) saw emphasis placed on the exposure of the injustices and inequality of capitalism, and its system of production. The said books revealed starkly the authors collective commitment to Marxist theory, and signalled their vehement opposition to what was seen in classical Marxist terms as the vulgar and apologetic analysis of neoclassical economics. However, American radical economics has become progressively less and less Marxist in both form and content in the period since the early 1980's. The change has been nowhere more apparent than in the recent published work of Reich and Devine, and more especially, Bowles and Gintis. They have reached the conclusion that the force of the conventional Marxist analysis of capitalist production can be enhanced if it is reconstructed using tools taken directly from neoclassical economics. Reich and Devine (1981) set the trend with their so-called 'divide and rule' model, but have since been emulated by Bowles and Gintis in their continually expanding 'contested exchange' framework (see Bowles and Gintis, 1990 and 1996). Both set of writers agree that marginalist techniques can be usefully employed in the enunciation of the sources of conflict within capitalist production, and relatedly, the imperative for capitalist employers to subordinate their workforce. They have claimed that their integrated approach strengthens the Marxist case against capitalist production, and in turn, offers a revealing insight into superior post-capitalist alternatives. Neoclassical economics has supposedly been turned against itself in the process of aiding the development of Marxist production theory in particular, and Marxist economic thought more generally.

The paper traces the historical development of ideas in American radical economics, and examines the implications of the recent lurch that Reich and Devine and Bowles and Gintis have made towards neoclassical economics for the study of capitalist production in

particular, and American radical economics more generally. Specific attention will be paid to the motivational reasons behind the shift in the direction of neoclassical economics, with lessons drawn on the extent to which the original meaning of the American radical project has been undermined by the integration of insights from neoclassical economics. In terms of the theory of capitalist production, the adoption of a subjective theory of value has concealed the structural roots of the conflict of interest between workers and capitalist employers, and in the process, failed to demonstrate that the capital-labour relation is qualitatively distinct from the type of employment relationship that might be expected to be found under alternative production arrangements. Through their subscription to the conventional neoclassical assumption of the disutility of work, Reich and Devine, and Bowles and Gintis have also served to mask the important dual role that conflict and cooperation play in the operation of the labour contract. Their preference for marginal utility analysis, and their associated reduction of the labour management problem in particular, and workplace behaviour more generally to the issue of shirking on the part of individual workers, will be suggested to have imposed severe sanctions on their ability to indict capitalist production, and in so doing, weakened the impact of the attempts they have made to present a vision of possible post-capitalist alternatives.

The decision American radical economists have made to take inspiration from neoclassical economics also raise more general concerns about the future of American radical economics in particular, and radical politics more generally. The important question remains as to whether the American radical economics can retain its distinctiveness while utilising the conventional tools of neoclassical economics. The formal models of Reich and Devine and Bowles and Gintis bear all the hallmarks of being neoclassical in origin, and do not immediately come across as offering any radical alternative to capitalist production. The paper argues that the emancipatory vision of the Marxist project has not just been diluted, but also eclipsed by its subsumption within a neoclassical framework. While the moment has been opportune for American radical economists to engage neoclassical economists in debate over issues to do with the internal organisation of capitalist production, some of their leading number have initiated moves to expunge the radical from American radical economics. Far from marking a progressive stage in the history of radical economic thought, the latter-day conversion of Reich and Devine and Bowles and Gintis to neoclassical methodology has only denied space for the enunciation of a radical agenda, and ultimately brought forth the possibility of American radical economics becoming a sub-discipline of neoclassical economics. American radical economics has relinquished much of the ground that it gained in the 1970's when it developed a powerful rebuttal to neoclassical economics, and now

faces the very real prospect of being subsumed by the very orthodox that it once diametrically opposed.

Andrew Brown, Middlesex University Business School

The Hidden Opposition of Critical Realism and New Dialectics

Critical realism and new dialectics constitute two positions within philosophy and social theory. They appear to be congruent and indeed share a common set of terms, many of which can be found in Marx and Hegel. For example they both affirm, with Marx, that 'science would be superfluous if the outward appearances and essences of things directly coincided' (Marx (1971), p. 817) and that 'the concrete is concrete because it is the concentration of many determinations hence unity of the diverse' (Marx (1973), p. 100). This paper suggests that the outward appearance of congruity of the two positions is illusory. Their true relation is disclosed through an immanent critique of critical realism conducted at the level of method in social science. The critical realist method, 'transcendental deduction', requires pre-conceptualised 'social forms' as *premises* for the deduction of essential social structures and mechanisms not actually present. Because the deduction of structures and mechanisms is entirely based on specific social forms, it is not possible to theorise immanent change of these forms, or transformation of the essential structures and mechanisms. Thus, if accepted, this critique contradicts critical realism's claim to provide a '*transformational* model of social activity' (Bhaskar (1979), ch. 2). New dialectics overcomes this problem of sustaining social structural change, and related problems that are manifest in critical realism (and in much of Western philosophy and social theory). In this sense new dialectics constitutes the 'positive moment' of the critique of critical realism. Debate between critical realists and new dialecticians is prone to misunderstanding because shared terms are given opposite meanings. It is hoped that, at the very least, the paper will help to alleviate this difficulty and to encourage future constructive debate of the issues raised.

Nigel Hudson, de Montfort University

Economic analysis of local labour markets: a critical appraisal of orthodox approaches and presentation of an alternative

Analysis of local labour markets is recognised by policy makers as important in attuning education and training provision to local skill needs. Yet the associated literature indicates that the contribution of economics to such analysis remains impoverished. This paper attempts to explain why and to indicate a more effective framework for analysis.

The predominant neoclassical approach is based on the application of neoclassical price theory to provide a simple model of the labour market. Yet studies of actual labour markets have found they operate in ways

which are inconsistent with this model. A particular problem is found to be how this individualist based model can accommodate social phenomena, such as customs and norms, which are accepted to be important factors in the labour market. This is argued to be part of a broader philosophical failure of the neoclassical model.

An alternative philosophical, theoretical and methodological approach is suggested which admits social phenomena and draws on developments in theories of segmentation and uneven development. This allows a role for human agency and suggests a conception of the labour market as the product of the interaction of social institutions and processes which may vary over time and space. This understanding is to be applied to a particular study of skill needs in the engineering industry and appropriate methods for data collection and analysis are identified.

Huàscar Fialho Pessali, Universidade Federal do Paraná, Curitiba, Brazil

Transaction costs theory: a critical appraisal

This research tries to (1) expound the evolution of Transaction Costs Theory (TCT) since Coase's 1937 article, taking account of Williamson's 1975 work, and continuing through Williamson's "The Mechanisms of Governance"; (2) assess its framework critically combining references of different economic schools regarding its contributions to a new theory of the firm; and (3) indicate a reformulated agenda that overcomes the marginalist controversy, in as much as TCT seems to start from more realistic foundations.

First, the work attempts to show TCT within the world of contracts under uncertainty that is inhabited by the contractual man – opportunist and rationally bounded – who conducts economic transactions in the context of technological/institutional/environmental constraints, and due to these characteristics, resorts to different forms to organise production – through hierarchy, market or hybrid relations.

Second, consideration is given to the comments and criticism expressed of various sources and schools of economic thought.

• Evolutionary (neo-Schumpeterian) sources: the main focus of criticism has been on the static aspects of TCT analysis, whereas it is the dynamic foundations that need to be emphasised. This refers to the construction of capabilities to acquire and develop knowledge that enable firms to gain in competition not only for present transaction but for future ones (dynamic efficiency) – i.e. the innovation process that takes place over time. Another point concerns the precariousness of the selection process analysis on TCT (or the lack of any such process): neoschumpeterians say it is not unidimensional (functioning on the basis of efficiency criterion alone, and minimising transaction plus production costs), but multidimensional (as a co-evolutionary process), since organisations are rich and complex units with more than one functional dimension.

- Post-Keynesian sources: there are at least four main points of criticism; first, inasmuch as firms are engaged in production and distribution, the analysis of organisation should not be based on exchange transactions alone; second, an analysis in terms of comparative static, in which firms and markets are confronted as alternative modes of production coordination, is not appropriate since markets do not produce anything and can not be always regarded as an alternative to the coordination of production; third, the conduct of agents is not based exclusively on efficiency, but also on power and other principles, searching for the creation and exploitation of idiosyncratic advantages; and fourth, opportunism is not a logically indispensable presumption, because it can be seen as an endogenous variable to each culture or society, and uncertainty is sufficient as a major concept that embraces the former.

- Old (original) institutionalist (OIE) sources: to begin with, OIE claims that the transaction concept TCT uses is a misleading one. John Commons has defined transactions as the transfer of property rights, because the greatest part of the transfers of goods and services in a capitalist economy links not distinct technological interfaces but only distinct persons or agents, with no change in the object focused. Thus, the TCT concept is narrow, reducing the purpose of competition to efficiency and hiding the broader process of adopting any or all available strategies to put rival agents at disadvantage (seeking to obtain any kind of pecuniary returns, whether they come directly or not from production or transactions). Also, TCT ignores the relevance of power, even if it would be socially desirable to consider it as instrument of compulsion in economic relations. The methodological individualism approach, still used, obstructs any possibility of feedback going from institutions to individuals.

- Neoclassical sources: while heterodox schools would like to see even a further abandonment of neoclassical assumptions, mainstream economists claim that too many important points already have been given up. For the latter group, firms are not characterised by hierarchy or authority relations: they are no more than voluntary meetings of factors that facilitate higher productivity through work teams – in short, a nexus of contracts, simplified by an agent that centralizes bilateral contracts instead of a net of multilateral ones. Further, the concept of the bounded rationality of agents involves a deviation from traditional neoclassicism, resulting in a significant theoretical breach. Some see the alliance of TCT with modern industrial organisation (dealing with oligopoly and imperfect competition), and with institutional environment approaches (dealing with social norms and rules, property rights and politics) as involving a fertile theoretical integration of components, widening the comprehension of markets and organisations performances (against the view that would exclude the latter).

The initial results of this research seem to indicate TCT has at least succeeded in raising discussions between heterodox schools of thought and the neoclassical orthodoxy. Heterodox economists seem to look for common links within their own framework and to build upon them (e.g. power and dynamic efficiency considerations, and multicriterion approach to selective processes). At the same time, TCT seems to have been composed between the space that divide that general streams (e.g. bounded rationality and incalculable uncertainty, agents relations based on uneven positions, and others).

Some see TCT as a miscellany of concepts and/or as an innocuous effort while others see it as a building bridge of dialogue between groups that has long been weakened, and this may signal a revival of mutual work with recognition of the merits of each. We will have to see whether opportunism is, or is not the tonic of this intellectual transaction we have to look forward. This research is an attempt to present theoretical arguments to those interested in evaluating the point.

NOTICES/CALLS FOR PAPERS

The 1998 Annual Conference of the Scottish Economic Society will be held at City Campus, Glasgow Caledonian University on the 7th and 8th of April. Offers of papers should be sent to Ailsa McKay, Department of Economics, Glasgow Caledonian University, Glasgow, G4 0BA (email: amk@gcal.ac.uk). Papers from economists at an early stage of their career, including doctoral students, would be particularly welcome.

The conference programme will feature invited panel sessions on economic and social issues in a devolved Scotland and the future of economics in the Scottish Universities. Further details and application forms will be sent to members of the Scottish Economic Society. Anyone interested in attending, whether or not a member of the SES, should contact Ailsa McKay at the above address.

INTERNATIONAL CONFERENCE on NICHOLAS GEORGESCU-ROEGEN's Scientific WORK, under the auspices of the Association Charles Gide, FRI-SAT, 6 -7 November, 1998, STRASBOURG, FRANCE

The purpose of this conference is to pay tribute to one of the great economists of the XXth century. Nicholas Georgescu-Roegen passed away on October 30th, 1994 at the age of 88. He began his teaching career as Professor in Bucharest, then taught for a short time at Harvard and was finally appointed Professor at Vanderbilt University until his retirement in 1976. Granted

Doctor "Honoris Causa" of Louis Pasteur University of Strasbourg in 1976, he was Visiting Professor at this University during the academic years 1976-1977 and 1977-1978. His intellectual trajectory led him from Statistics to Mathematical Economics and to Epistemology. Although his first contributions had addressed pure consumer theory, production theory and activity analysis, he progressively engaged in a criticism of the traditional view of the

production process, which led him to develop a new theoretical approach.

The conference aims at a reflection both on the content of his thought and on the impact of his work on contemporary economics. Proposals should cover in particular the following topics :

1. Epistemology/Methodology
2. Environment/Energy/ Development
3. Utility and Uncertainty
4. Production and Growth Models

Paper proposals (2-3 pages in French or English) to be sent to:

Georgescu-Roegen Meeting, Bureau d'Economie Theorique et Appliquee, 38, Eric FRIES GUGGENHEIM, conference coordinator, boulevard d'Anvers, 67000 STRASBOURG -FRANCE. Phone: 33-3.88.41.52.27/FAX: 33-3.88.61.37.66 e-mail: GR.meeting@cournot.u-strasbg.fr http://cournot.u-strasbg.fr/beta/ldb/appel_en.htm

Deadline for submission : March 1, 1998.

Notification of acceptance: end May 1998.

Conference on Which Labour Next? Global Money, Capital Restructuring, and the Changing Patterns of Production, organized by Riccardo Bellofiore, Department of Economics of the University of Bergamo, in collaboration with Ires and Fiom-Cgil, 3-5 December, 1997.

The program, participants, speakers and information are available at www.unibg.it under the heading "Convegni". For further information please contact Riccardo Bellofiore on bellofio@cisi.unito.it

NEWSLETTER

September 1995

EDITOR'S CORNER

Hello again. I hope you had a good summer (or winter if you're in the southern hemisphere).

I'm afraid I have some bad news. Vicky Chick and I applied to the ESRC for a continuation of funding for the PKSG from next January; the application was unsuccessful. This is very disappointing. However, with the help of ESRC support for seven years, an extremely successful Study Group has been built up, and now is the time to build on that strength. Now is also the time to take stock and to consider possible new directions which we might take. There are already several ideas on the table, and we would welcome as much input as possible from PKSG members as to how you would like to see the Group evolve.

In the meantime, Philip Arestis has stood down as co-chair of the PKSG. He and Vicky Chick started the Group from scratch back in 1988, and devoted tremendous efforts over the following seven years to building it up to what it is today. On behalf of the PKSG membership, I would like to extend to Philip our heartfelt thanks for all that he has done.

It is certainly the intention to continue with some form of communication, like the newsletter. So please keep sending me material. I have included a couple of new types of item this time, and hope that this will spur you into providing me with similar material for later issues. I have included a review of a book written in Greek. Language barriers continue to be a severe impediment to communication among economists, in spite of all the developments in information technology. Perhaps we can make a dent in these barriers by informing each other through the newsletter of work being published in different languages. I have also included some details of a research project; please let me have details of any projects you would like other readers to know about.

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(Self) Selected ABSTRACTS of PAPERS PRESENTED at SEMINARS

Seminar, UCL, 24 March 1995

Tony Laramie and Douglas Mair, 'The Impact of Taxation on Gross Private Non-Residential Fixed Investment in a Kaleckian Model: Some Empirical Evidence'

Critics of neoclassical theory of investment demonstrate that the theory is untenable in the 'real' world of true uncertainty and imperfect competition; where past investment experience matters; where underemployment is the rule not the exception. Kalecki's theories of investment provide an alternative to neoclassical theory. The paper considers the impact of taxation on investment within a Kaleckian model and produces empirical estimates for the US 1980-1993. It is shown that average tax rates on wages and profits impact on investment through two channels - a profits effect and a depreciation effect. US evidence shows that changes in average wage-tax rates swamp effects of changes in average profits-tax rates. Equity considerations need not be subordinated to efficiency objectives. A redistribution of income to lower income groups may increase the profitability of investment.

Douglas Mair and Peter Reynolds, 'The Mark-up and Income Distribution: An Empirical Analysis in the Spirit of Michal Kalecki'

The paper provides empirical support for Kalecki's degree-of-monopoly theory of income distribution. This theory provides an integrated treatment of the theory of income determination and income distribution whereby both micro- and macro-economic forces act together. Direct labour's share of national income is determined by the process of firms marking up direct costs to obtain prices. The level of profits is determined by investment decisions taken in the past. The paper reports results of a panel data study of fourteen consumer industries in the UK manufacturing sector 1985-1990 which lend support for Kalecki's theory.

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PKSG

'Criticising Post Keynesian Economics',
UCL, 5 May 1995

lan Steedman, 'Criticising Post Keynesian Economics'

Posing questions to Post Keynesians is not that easy, not least because Post Keynesian economics is so heterogeneous - there are definite differences of emphasis (and sometimes more than that) even between those close to Keynes and those close to Kalecki, not to mention those who draw inspiration from yet other sources. One might nevertheless ask, for example (and *without* implying which answer ought to be given), whether Post Keynesian economics is primarily concerned to criticise the mainstream? or to make predictions? or to give historical explanations? or to...? And it is not at all clear what is counted as the criterion of success in some of these activities - are Post Keynesian economists divided over the role of econometrics, for example? Again, it could be asked how much Post Keynesian economics actually *achieves* with respect to the reiterated importance of endogeneity, history and institutions; mere slogans cut little ice (rightly) and some of the most interesting mainstreamers will happily agree that these matters are interesting and economically important - but what can be *said* about them?

Do firms maximize short-term profits, or was Keynes (of *The General Theory*) wrong? Do they set mark-up prices, or was Kalecki wrong? do they price to finance investment, or was Eichner wrong? If there are firms of each of these (and perhaps other) kinds, why do Post Keynesian analyses so seldom allow for them *simultaneously*? And why do (some) Post Keynesian economists insist on referring to 'the struggle over the share of aggregate wages in national income' when there *is* no such struggle and no market (or other arena) in which there could be?

There is no need to repeat the excellent questions posed by Bernard Walters and David Young with respect to the place of fundamental uncertainty and of endogenous money/liquidity preference in Post Keynesian economics; I simply endorse them. I would perhaps be more cautious than them over policy, however; if fundamental uncertainty is deeply important then presumably only certain limited (if still important) kinds of policy prescriptions are in order. Perhaps Post Keynesian economics can try to encourage greater modesty in (some) mainstream policy activity? and more generally, Post Keynesian economics ought not to feel the least ashamed of its critical role vis-a-vis the mainstream, even if some Post Keynesian economists feel that that is an unduly restricted remit

Bernard Walters and David Young, 'Some Methodological Criticisms of Post-Keynesian Economics'

Eichner and Kregel's claim for the coherence of post-Keynesian economics as an alternative to neoclassical theory has recently been re-

asserted. This paper questions whether this is justified under a variety of headings. The coherence of post-Keynesian economics is discussed relative to existing schools of thought: Austrian, Marxian and neoclassical. Coherence is sought in terms of a unified agenda and also among the different methodological approaches - realism, Babylonianism and positivism. Finally, a number of different strands are examined for internal coherence. It is concluded that, in many respects, post-Keynesian economics cannot be regarded as a school of thought. Further, it is suggested that attempts to generate an overall alternative synthesis are misguided.

Stephen Parsons, 'Saving Keynes from the Post Keynesians'

Post Keynesians claim that a distinctive methodology is one of the features distinguishing their approach from that of neoclassical economics. Four key components of this alternative methodology are taken to be (i) realism, (ii) organicism, (iii) anti-dualisms, (iv) anti-Cartesianism. However, these four components are mutually inconsistent: for example, the form of realism in favour advances structure/event, subject/object and theory/reality dualisms. Further, Keynes's own work does not appear to substantiate Post Keynesian methodological claims, whilst his philosophical outlook appears to be informed by the very positions Post Keynesians are attacking. The paper suggests that Post Keynesians should become more receptive to alternative interpretations of Keynes's work.

'The Relevance of Keynesian Economic Policies To-day', University of East London, 19 May 1995

Douglas Mair and Tony Laramie, 'The Macroeconomic Effects of Taxes in a Federal Europe'

The signing of the Maastricht Treaty has created a dilemma for fiscal policy at both the theoretical and a policy level. The conflict between the increasingly important stabilizing role for fiscal policy post-Maastricht and the desire for fiscal harmonization require a re-examination of the theoretical framework within which policy discussion should take place. Mainstream tax incidence theory cannot adequately analyse the macroeconomic effects of taxation and the paper proposes a post Keynesian approach based on the tax and business cycle theories of Kalecki. A study of the macroeconomic effects of State and local taxation in the US is presented to illustrate the potential of Kaleckian analysis of taxation in federal Europe.

Robert Pollin, 'Saving and Finance: Real and Illusory Constraints on Full Employment Policy'

Perhaps the fundamental innovation of Keynes's *General Theory* and the subsequent Keynesian revolution was to overthrow the view that the pursuit of full employment policies is constrained by an economy's level of saving.

Despite this, in the United States in recent years, a large body of research has emerged which not only affirms the notion of the centrality of saving, but has also been correspondingly disturbed over the perception that the US saving rate has sharply declined. There are nevertheless several fundamental problems with this 'causal saving' perspective, indeed many of the same problems as were evident in Keynes's time. This paper seeks to demonstrate first that saving rates per se are an *illusory* constraint on full employment policy, at least with respect to the US economy. At the same time, the paper argues that financial forces more broadly are major barriers to an egalitarian growth path which includes full employment policies.

The paper has five main arguments:

- (1) In examining even the most basic evidence, it is not obvious that private saving rates are actually low. Indeed, when one accounts for depreciation of capital assets and changes in the market value of outstanding assets, saving rates are not low at all by historical standards.
- (2) Empirical evidence for the US shows that saving rates - defined simply as current income minus consumption - exert at best a weak influence on the availability of financial resources for either investment or other purposes.
- (3) It is true that the growth of domestic net investment has been stagnant since the 1970s. However, this has not been because corporations faced a shortage of funds available for investment. Indeed, over the last full business cycle, corporate internal funds were fully sufficient to pay for *all* of the corporations' fixed investment. Corporations did also borrow to an unprecedented degree over this period, but, in aggregate, all of these funds were channeled toward mergers, takeovers, and related speculative activities.
- (4) To understand the limitations of the 'crowding-out' perspective, it is necessary to examine the effects of federal government borrowing within a broader context that includes the overall sources and uses of funds within the US financial system, and in particular the relationship between finance, saving and investment.
- (5) There are three actual financial constraints on full employment policy: financial forces create a bias toward short-term time horizons and toward speculative takeovers rather than new investments; these same forces

encourage a long-term tendency toward increased financial fragility, meaning that expansions are inhibited by speculative financial activity and downturns are more severe than they would be otherwise because of the vulnerability of the financial system; and the structure of the financial system has weakened the ability of the primary tools of interventionist policy, ie deficit spending and loose monetary policy. Moreover, the increased power of financial market interests within the realm of macro policy formation has created a deflationary policy bias.

Amativa Dutt, 'The Relevance of Keynesian Policies in Semi-Industrialized Countries: Theoretical Issues and Empirical Illustrations'

This paper examines the relevance of Keynesian policies - interpreted as those policies implied by Keynes's theory of unemployment developed in *The General Theory* - for a subset of developing economies which are called semi-industrialized countries. It examines the role Keynesian economics has played in the development economics literature, tracing its early dismissal by development economists, its subsequent growth in influence, and the recent attacks on it. It then draws on recent contributions in development economics to argue on theoretical grounds that Keynesian policies are relevant for semi-industrialized countries even when they are constrained by capital shortages, stagnant agricultural sectors, and foreign exchange availability. Finally, it draws on the recent development experience of India to illustrate the empirical relevance of some of these theoretical issues.

Seminar, UCL, June 1995

Maurizio Caserta, 'Endogenous Change, Open Systems and Provisional Equilibrium'

The fundamental proposition of the paper is that learning and equilibrium are not incompatible ideas. This is argued starting from Hahn's notion of equilibrium where, however, equilibrium and learning are said to be incompatible. The argument rests on the equal treatment of economic analysis and economic agents. Just as economic analysts cannot afford a fully-comprehensive theory of the economy, but need to set clear limits to what they can say in an orderly way, so economic agents form theories which cover only a subset of the messages received from the economy and nature. No one could deny, however, that while theories are propounded and applied by economic analysts, a process of learning is taking place aimed at generating new and better theories. Similarly, no one could deny that economic agents, while using the available theories for action, continually process information which has not yet found its way into a theory. The question posed in the paper is whether this recognition bears any relevance to the notion of equilibrium. The answer is that it does, and that the notion of provisional equilibrium is thus substantiated. The other question is whether the notion of provisional equilibrium makes any difference for the way economic theory is actually done. The

answer again is that it does make a difference. An example is provided, taken from the theory of economic growth, where the notion of provisional equilibrium manifests itself through a multiplicity of models seen as different closures to the same general framework.

Heinz Kurz, 'The Hayek-Keynes-Sraffa Controversy'

The purpose of this paper is to reconsider Sraffa's debate with Hayek subsequent to the publication of Hayek's *Prices and Production* in 1931. It is important to do so since Sraffa's critique of Hayek's monetary theory of overinvestment was formulated at an important stage of his investigations in the theory of value and distribution. In the process, the paper reviews briefly the debate between Keynes and Hayek sparked off by the *Treatise on Money*. It is concluded that Hayek's efforts to integrate monetary theory and the theory of value and distribution, while a failure, nevertheless deserve praise. His debate with Sraffa leaves echoes in *Production of Commodities by Means of Commodities*. Here Sraffa implies that monetary policy will have a lasting effect on income distribution, and the real system at large, potentially leading us further in the direction of completing Hayek's project.

Adrian Winnett, 'Saving: Fungibility, Liquidity, and Kaldor'

The consumption function was an essential part of Keynes's theory of effective demand; however most of the subsequent development has been firmly neoclassical. Theoretical and empirical work has been guided by models of intertemporal optimization, notably the life-cycle model. The exception has been the Kaldor-Pasinetti models of differential savings propensities between wages/profits or workers/

capitalists; but attention here focused increasingly on long-run equilibrium properties rather than behavioural foundations. Insofar as such foundations were considered, it was in terms of corporate retentions, rather than household behaviour. Pasinetti, in particular, has been dismissive of attempts to rationalise differential household propensities to save by source of income rather than identity of recipient. It has also been the case that there has been little attempt to link 'real' theories of effective demand with the characteristics of a monetary economy, Clower's dual decision hypothesis being a notable exception. Empirical anomalies in the neo-classical life-cycle model have prompted the development of a behavioural life-cycle model; this is a psychologically based attempt to found a model of household behaviour on the perceived non-fungibility of wealth. In effect, households have internal flow-of-funds accounts which relate sources of income to types of income disposition (or, more broadly, accretions to wealth accumulations and dispersals). These are internally imposed constraints which, radically extending the behavioural life-cycle approach, can be seen to interact with externally imposed (by financial intermediaries) liquidity constraints. Both can be interpreted as attempts to handle the lack of control flowing from unconstrained liquidity. There is evidence (in the present paper, drawn from some Dutch survey data) that households deploy a number of such accounting schemes, including a distinction between capital and non-capital sources of income. This suggests a relationship among the behavioural foundations of consumption/saving behaviour, the coping strategies necessary to households (and others) in a monetary economy, and the profit/capital accumulation norms characteristic of a capitalist economy.

PEOPLE ON THE MOVE

Ian Steedman is now Research Professor in Economics at Manchester Metropolitan University

Bill Gerrard is now Reader in Economics at the University of Leeds

Jens Holscher is now DAAD Senior Research Fellow at the Institute of German Studies at the University of Birmingham

NEW BOOKS

Vicky Allsopp, Understanding Economics, London: Routledge

Athol Fitzgibbons, Adam Smith's System of Liberty, Wealth and Virtue: The Moral and Political Foundations of the Wealth of Nations, Oxford: Clarendon, 1995

Heinz Kurz and Neri Salvadori, Theory of Production: A Long-Period Analysis, Cambridge: Cambridge University Press, 1995

BOOK REVIEW

A.D. Karayiannis, *History of Economic Methodology*, Athens: Interbooks, 1995.

This is a well-written text on the history of the main methodological ideas in economics; the text's wider appeal is unfortunately limited by the fact that it is written in Greek. The author is assistant professor of economics in the University of Piraeus.

The first chapter discusses the most important concepts of economic methodology, while the remaining chapters follow a chronological exposition of methodological ideas, starting with the Pre-Classical economists, and proceeding with the Classical school and with socialist economics.

A separate chapter is devoted to the methodological debate between the German Historical school and the Austrian school. Chapters seven to ten examine the formation of the 'orthodox' methodology of the neo-Classical school. The discussion starts with the methodology of the marginalists and finishes with the modern ideas of Friedman and Samuelson.

The next two chapters discuss alternative approaches to economic methodology such as that of the neo-institutionalists, neo-Austrians, and individuals like Mirowski. The final chapter deals with the nature of the evolution of economics. The ideas of well-known philosophers of science are summarised. Overall the book provides economics students with a rounded knowledge about the history of economic methodology, and also a stimulus to think about the nature of the economics that they are taught.

S.A. Drakopoulos
University of Aberdeen

CANADA: BULLETIN HERMES

Bulletin Hermes is a bi-annual newsletter, emanating originally from York University in Ontario, appearing every January and September. It is intended to be a vehicle of academic information addressed primarily to scholars interested in the study of the development of economic ideas and designed to inform them of each others' research and related activities. The *Bulletin* has been edited since its first issue in January 1993 by Omar Hamouda and Betsy Price. The opening statement in the first issue began as follows:

'The disciplines in the humanities and social sciences, and especially economics, are becoming more and more fragmented, and in many cases disconnected or remote from each other. They often lack a sense of perspective, historical or even within a subject. There is, thus, now more than ever, a perceived need for reinforcing a general historical, philosophical and methodological perspective in studying the development of economic ideas, whether current, recent or remote.

Although few and scattered, there are a number of colleagues in and around Toronto whose field of interest is the history of economic thought, economic philosophy, economic methodology, or recent developments in economic ideas. It is specifically these fields that set economics in perspective. The objective of *Bulletin Hermes* is to focus on these fields and thereby to develop a network in which the scholarly work in them can be brought to the attention of those interested.'

From September 1995, *Bulletin Hermes* is edited by Tom Pymes at Carlton University in Ottawa.

CONFERENCES

EAEPE

The EAEPE 1995 Conference on 'Transforming Economies and Societies: Towards an Institutional Theory of Economic Change' will take place in Krakow in Poland on 19-21 October 1995.

The EAEPE 1996 Conference on 'Work, Unemployment and Need: Theory, Evidence, Policies' will take place in Antwerp in Belgium on 7-11 November 1996.

Booking forms and further details of both conferences can be obtained from Jane Roe, Sheffield University Management School, 9 Mappin Street, Sheffield S1 4DT, UK; Fax: (01142) 725 103. Those wishing to submit a paper to the 1996 conference should send a 400-600 word abstract to John Groenewegen, Department of Economics, Erasmus University, PO Box 1738, 3000 DR Rotterdam, The Netherlands; Fax (0031) 10 408 1386

University of Tennessee International Workshop in Post Keynesian Economics, June 27 - July 3, 1996.

Plans are underway for a Workshop to be held in Knoxville, Tennessee to celebrate the 60th anniversary of the publication of *The General Theory* and to acknowledge the 50th anniversary of the death of John Maynard Keynes. As in previous years, the Workshop consists of 6 days of intensive seminars on a variety of subjects related to Post Keynesian economic research. Advanced graduate students and young professors are particularly welcomed, as are others interested in the policy implications of Post Keynesian study. Some of the topics expected to be covered include:

- Is an independent central bank necessary or desirable?
- Do we need government regulation of domestic and international financial markets?
- How can Keynes' principles be utilized to develop policies to develop a smooth transition from a centrally planned to a market economy?
- What should be the US policy towards current account balances?
- Is it possible to achieve full employment without inflation in an entrepreneurial economy?
- Should the federal government pursue a balanced fiscal budget annually or over the cycle?

For further information about attending the Workshop and/or presenting a paper please contact: Louise Davidson, University of Tennessee, Department of Economics, SMC Knoxville TN. 37996, USA. e-mail: PDAVIDSON@UTK.EDU. Phone: 423-974-4221. Fax: 423-974-1686.

PROJECTS

Scottish Political Economy Project, A. Dow, A. Hutton and M. Keane at Glasgow Caledonian and S. Dow at Stirling

The objectives of this on-going project are:

- (1) to develop further and to clarify the concept of a Scottish tradition of political economy
- (2) to investigate its significance in Scottish academic and applied economics in the twentieth century and to assess the extent of its survival in contemporary Scotland
- (3) to cast light on the particularity and desirability of a revival of the Scottish approach, especially at the level of undergraduate education in economics in Scotland.

Please contact any of the project's participants for further details.

PKSG NEWSLETTER

4 (1)

JANUARY 1996

EDITOR'S CORNER

First, Season's Greetings everyone and best wishes for the New Year.

In the last newsletter I reported the loss for this year of ESRC funding for the PKSG. Since then we have been fortunate in being given partial funding for 1996 by the Royal Economic Society. We therefore no longer face serious financial difficulties, although everyone is urged to seek departmental funding for attending seminars, failing which to apply for coverage only of Apex fares from the PKSG. Although the immediate financial pressure is now off, the period in which we faced serious financial difficulties was a very constructive one, encouraging discussions on restructuring the Group's activities. Out of these discussions, two particular proposals have emerged which will address the problem of finance, but more importantly will strengthen the Group in other ways. These proposals were put to those attending the PKSG Seminar on 15 December primarily as mechanisms for giving the Group a stronger and broader base. The following proposals were approved by those present:

- (1) Seminars will take place in turn in a range of institutions distributed round the UK. Several departments have already offered to host seminars. While this will make the seminars less accessible at times to colleagues in the London area, they will be more accessible to those in the areas surrounding the location of the seminars, hopefully attracting, in addition to faithful attendees, a new audience who have not been aware of the seminars or willing to travel to London. It is the hope that this development will broaden and strengthen PKSG membership in general, and add strength to those departments where there is already a significant Post Keynesian presence.
- (2) An association is to be formed for PKSG members, involving among other things payment of a subscription and receipt of the newsletter. (Those who have already subscribed to the newsletter will have this subscription offset against their association subscription.) Those interested in drafting a constitution for the association are invited to a meeting prior to the 9 February Seminar at UCL (at 11.30 am); please let Adrian Winnett know if you would like to participate in the drafting. The draft is to be discussed at that Seminar, with the aim of launching the association at the Leeds 96 conference. The objectives of the association are to strengthen the presence of Post Keynesianism in the UK and to develop the relationship with Post Keynesianism elsewhere – a range of possible activities and developments can be considered by the association once it is formed.

I am very pleased to be able to include in this issue three thought-provoking pieces on the current state of economics in general and Post Keynesian economics in particular, from the perspective of Canada, Australia and the UK. John Smithin's and Paul Downward's pieces are directly addressed to our current situation in the PKSG. Peter Kriesler's piece, written a few months ago, elaborates on the situation in Australia. There are several threads in common between these pieces, but also some differences of opinion. If you find the discussion interesting, I urge you to enter the debate and send me something for the next newsletter.

Sheila Dow, Department of Economics, University of Stirling, Stirling FK9 4LA. Tel: (01786) 467474, e-mail: s.c.dow@stirling.ac.uk.

THE CRISIS IN ACADEMIC ECONOMICS

John Smithin

It has been noticeable that some of the articles and letters in the PKSG Newsletter over the past year have had a rather pessimistic tone. They are doubtful whether Post Keynesian economics, or any other type of non-mainstream economics, will survive as a subject of university instruction very far into the next century. I should imagine that this feeling of pessimism has only been increased by the recent announcement that funding for the PKSG has been cut off.

I can't deny that the intellectual environment in the universities seems particularly bleak at the current time, but nevertheless, as a rather eclectic economist myself, I hope that Post Keynesians and others will not take this too much to heart and will keep on doing what they have been doing to the turn of the century and beyond. I certainly hope that the PKSG will survive and flourish (via individual subscriptions or whatever) with the electronic version of the Newsletter playing a key role for those of us who can't regularly get to the meetings.

It was always a mistake, anyway, to extrapolate existing trends indefinitely into the future. I am sure that no-one in 1966 could have predicted how much the social, intellectual and political climate would have changed in 1996, but equally we can have no clear idea, now, what the world of 2026 will be like. What can give us hope, however, is that it will certainly be different. Technical change, presumably, will play as important a role as it has done in the past, although again in ways that are not easy to predict. But, for example, how important will publishing in the 'top 10' journals continue to be, if journals themselves become obsolete?

It has been interesting for those of us based outside the UK to read about the impact of the Research Assessment Exercise (RAE) on the teaching of non-mainstream economics in UK universities. The situation sounds bad, but I get the impression that it just formalises the type of criteria for hiring, promotion, etc. which have been in place, informally, in North America for at least the last twenty years. (I'm afraid I must have blinked and missed the episode when 'Post Keynesianism emerged as the dominant paradigm in the theoretical discourse on Canadian political economy in the 1990s.') In other words, the UK seems simply to be following the well-established lead of North America in rigidly defining what 'respectable' academic teaching and research should look like.

This means, though, that we can already begin to see the consequences of this programme in the development and status of academic economics in the USA and Canada. The results in fact are by no means comforting for the proponents of mainstream economics. The more or less total dominance of pseudo-mathematical neoclassical economics in North American university teaching is very clearly what lies behind the much-discussed downturn in enrolment at the undergraduate level. The students, in effect, are 'voting with their feet', in droves. It has been obvious to me for a long time that four years of indifference curves, calculus, game theory, matrix algebra, etc., can be of little or no relevance to the liberal arts major who is interested in gaining some insight into the economic and political forces which are shaping our world, and making it such a difficult place to live in. More to the point, however, it is becoming more and more obvious to the students as well. The pace of world events in recent years, the collapse of Soviet-style communism, global restructuring, the economic

integration juggernaut, perennial recessions, the ERM debacle, etc., have underlined the shortcomings of standard economic analysis in a really dramatic way. What do years of mathematical training enable the reputable neoclassical economist to usefully say on any of these issues? The answer to that question is only too painfully apparent, even to the least sophisticated of their potential clientele.

So, if we are to focus on the institutional pressures shaping the future of the economics profession, those likely to be caused by declining enrolments should not be ignored, particularly in these times of budget cuts and austerity. The reality is that student numbers will ultimately determine what share of funding economics departments will continue to attract, and may, eventually, force a re-evaluation of what is actually taught, how attractive the material is to the students, and ultimately who teaches it. This can hardly occur overnight, given the built-in inertia generated by the tenure system. There is a sense, nonetheless, that it is now crunch time for the orthodox mathematically-oriented neoclassical economists. We are now into the third or fourth generation of technically-trained economics professors who, in the state universities at least, have been sawing off the branch they are sitting on with their anti-Keynesianism. Luminaries of the past like Paul Samuelson may well have been able to talk sensibly about public policy issues as well as doing the math, but the students of the students of Samuelson's students are definitely not capable of doing so.

In the business schools, actually, it seems that economics (that is neoclassical economics) is already a dirty word. It is fashionable at the moment for schools to be revamping their curriculum, supposedly to meet the new requirements of 'management education in the 21st century'. This is mostly hype of course, but it is evident that the economics content, in particular the emphasis on neoclassical price theory, is being drastically reduced. In the business school context this can hardly be for ideological reasons. The main reason is simply that the material typically taught is perceived as being of little relevance to the students in preparing them for the issues they will ultimately face in the 'real world'. The irony is that cutting out the economics courses does not really reduce the students' exposure to issues of political economy more broadly defined. Most business school courses do deal with these issues in one way or another, albeit from a different ideological standpoint than Post Keynesians usually take. They simply are less and less inclined to deal with them using the categories and methodology of mainstream neoclassical economics.

Even if there is a genuine crisis in mainstream economics, however, this obviously does not automatically mean that a Post Keynesian alternative, or any other non-mainstream alternative, will be able to succeed in taking its place. All it does is create an opportunity.

There will be no Post Keynesian 'revival', nor will there deserve to be, if the objective is simply to inculcate some alternative orthodoxy rather than an open and inquiring attitude in the classroom. Nor will it succeed if Post Keynesianism is taken to be simply a useful cover for some kind of rearguard action on the part of fading sixties radicalism. In that case, we could be quite sure that it will not survive beyond the retirement dates of those now in their mid-to-late forties and fifties. Finally, I don't think it can succeed if the expression is simply a generic term for any and all approaches to the subject which claim to oppose mainstream economics from the left. Many of these 'non-mainstream' approaches are flatly incompatible with one another in terms both of theoretical principles and of 'world view', and are far from presenting a credible united front to potential converts. In my view, the most serious schism is between those theories and approaches which take seriously some version of Keynes's concept of 'monetary

production' (and recognise the essential openness of an economics system based on credit creation), and those which continue to rely on the existence of a 'real' economic equilibrium without money. These are fundamentally different theoretical positions leading to fundamentally different views on the role and feasibility of economic policy. In my own mind, I have always associated the best and most interesting of Post Keynesian economics with 'monetary' rather than 'real' economic analysis, as these terms were defined by Colin Rogers in his *Money, Interest and Capital* (1989).

I do think that the twenty-first century must see a revival of political economy (in its original sense) to fill the void left by the failure of the neoclassical mathematical economics project. So Post Keynesian economics *can* succeed if it is able to develop a persuasive and coherent approach, with genuine explanatory (as opposed to predictive) power about the real issues of the day. Above all, it is important to be able to suggest a realistic alternative policy agenda, based on a consistent set of both economic and political principles, which is understandable and plausible both to university students and the broader public. As Alistair Dow wrote last year, on one level it does not really matter whether this is done under the umbrella of academic economics, or elsewhere in the social sciences. It would be nice, though, to think of economics departments once more hiring people who are actually interested in the economy, and have something sensible to say about it.

Most social science fails because it gets hung up on either of two extreme positions, on the one hand utopianism, and on the other a passivity based on either determinism or a denial of human efficacy. Keynesians of all stripes, including Post Keynesians, probably made the first error in the early days, and now, in disappointment, are veering towards the latter. I would have thought that a 'true' Post Keynesianism would try to insist on the essential point that this is a false dichotomy and that an intermediate position represents the best hope for human progress. Reform is surely possible, rational management of human affairs is surely possible, but only based on a thorough understanding of the forces, counter-forces and tendencies actually at work (this is the *point* of academic study). There should be due account for possible 'unintended consequences', but the recognition of these should be cautionary and not paralysing (as with Austrians, for example). As Keynes himself put it in the *General Theory* (1936, 374): 'The task of transmuting human nature must not be confused with the task of managing it.'

York University, Ontario, Canada
December 1995

THE FUTURE OF POST KEYNESIANISM IN AUSTRALIA

Peter Kriesler

I enjoyed very much the first two issues of the newsletter, and would like to encourage it as an ongoing project. I read with interest Fred Lee's view about the future (or, rather lack of it) for Post Keynesian economics in the UK. On the basis of the Australian experience, I find that I fully agree with what he is saying about, what Joseph Halevi called 'the euthanasia of PK'. I also do not seriously expect any Post Keynesian economics to be taught in Australia by 2020.

The problem appears to be that as economics comes under attack from outside the discipline, economists are taking refuge in a collective narrowing of the mind. In Australia such attacks have come from two sources. Firstly, the general reputation of economists, who have been leading the charge for 'economic rationalism' and are seen as championing policies which have had disastrous social consequences, has led to the reputation of economists in the general community being at an all-time low. Partly this is due to the ridiculous promises made on the basis of the prediction of models, which has exacerbated existing problems. In addition, in Australia, economics is under attack by the other commercial subjects. Almost everywhere, student numbers are down, as a result of the perceived superiority of finance, accounting and marketing, in terms of career opportunities. As economics is essentially different to those, encouraging some critical thinking, they are unsympathetic. A solution would be to move to Arts faculties, but economists would regard this badly, as it is associated with a fall in prestige and pay. Instead of admitting that alternatives may contain some content, they are dismissed as not being economics. The attitude is also applied to the history of economic thought, which is no longer seen, in many places, as a subject worthy of any attention. In Australia, the ARC is the main grant-generating body, and I know of at least two HET-type projects that were dismissed as simply not being economics. Of course this is not an Australian sin, and there is anecdotal evidence of this sort of attitude all over. In most economics departments, the emphasis is entirely on neoclassical theory. The criteria for promotions and appointments stress publications in the top ten journals, all of which are neoclassical, and very rarely publish anything else. With the assault from outside, the number of courses being offered is declining and non-core subjects, such as PK and HET are often casualties. In any case, students often resent being forced to do economics options, and so do as few as they can, or else do courses which are perceived as being relevant, such as those involving some sort of business studies.

The effect of the closing of the mind of economists and the commercialisation of the degree has been that subjects such as PK are caught in a pincer movement. There are also problems involved with postgraduate students. In particular, there is a moral dilemma for students who wish to be involved in this area, no matter how important, if it reduces their employability as academics. Further, many universities, as a way of generating funds in the form of postgraduate fees, are insisting that PhD students now complete course work following the American model. This almost invariably involves compulsory courses in microeconomic principles, which many non-mainstream students find sufficiently off-putting to make them reconsider their studies.

The net effect of all of this is the number of courses which students can take teaching non-neoclassical courses is falling. At the same time people who can teach such courses, and have non-orthodox interests are being marginalised. Of course, there is the odd

exception. There have even been a couple of Post Keynesians appointed to Professorships. However, these really are exceptions. I have little doubt that, when the current generation of non-orthodox economists retire, there will be none left in Economics departments.

Is there any alternative? Unlike Fred, I do not believe that subverting core courses by sneaking PK content into them will help. This will only lead to open hostility, and, since the tenure system is likely to go, will probably lead to either sackings or to individuals not getting promoted or salary supplementation. In other words, things will simply get nastier. There is some hope in PK-type economists going to other schools. Here we have many in Schools of Social Science. However, the only long-term possibility is by opening the so-called top ten journals to acceptance of heterogeneous content. This is a necessary, though not sufficient condition for the long term survival of nonorthodox economics. However, it is not very likely.

*School of Economics, University of NSW, Sydney
September 1995*

THE FUTURE OF THE POST KEYNESIAN ECONOMICS STUDY GROUP

Paul Downward

I would like to offer the following comments on the future of Post Keynesian economics. The comments are provoked by Fred Lee's (1994) article, 'The Death of Post Keynesian Economics', published in the first issue of the newsletter, and the news that the study group was unsuccessful in its bid for ESRC funding this time.

Alistair Dow (article, issue no. 2) is right in arguing that the key to understanding Fred's prediction for the future of Post Keynesian economics lies in Fred's focus on the pressures exerted by the institutional system in economics departments. This is particularly the case in terms of generating pressure to stress recruitment requirements in favour of 'mainstream' research. Casual glances at the appointments section in the press would confirm this.

Having said this, I fully agree with Peter Riach's (letter to the editor, issue no. 2) comments that the future for Post Keynesian economics lies in adopting a pluralist approach to teaching rather than attempting to 'inculcate' students. Moreover, one should acknowledge Alistair Dow's recommendation of avoiding disciplinary elitism and getting involved in interdisciplinary work. The reasons for this are both ethical and practical. Firstly, most students enrolling on undergraduate programmes do so in the expectation that ultimately their degree award is comparable with programmes offered elsewhere in the UK. Subsequently, on completion of their studies they hope that this will enhance their employment prospects. to the extent that the 'skills' and 'intellectual advances' that are provided by current programmes of study can enhance the employment prospects of students, then I support them. This could, of course, be purely at a symbolic level – economists are supposed to do the following ... – or at the concrete level – a large number of economics graduates find employment through their numerical/data skills. Of course, and this is the key to Peter Riach's point, it is important academically that our students are exposed to the context of alternative ideas on key economic issues.

The second and practical point is that it is increasingly accepted outside even purely academic circles that economics is in a crisis – witness the popularity of Paul Ormerod's book, *Death of Economics* and/or simply examine the demise in 'A' Level enrolments to study economics in lieu of the growth of Business programmes. In this respect, outside of perhaps secure (5 star) orthodox departments (though I understand that even the LSE went into clearing this academic year) if this accelerating decline continues, it is clear that the discipline of economics in general will have to adapt. I would like to offer some suggestions on how this may be possible and why this *may* be easier for Post Keynesians than neoclassicals, particularly in terms of 'tapping into' these growth areas.

First of all, it is clear that Post Keynesian economics can thrive as part of a multidisciplinary 'business school' environment. Notably Leeds is a good example of this. Secondly, with ideological considerations aside, it is clear that one of the reasons why this is the case is that Post Keynesians emphasise the view that theory should correspond with the real world (in some sense). Pedagogically speaking this means that Post Keynesians are at an advantage in terms of articulating their ideas to non-standard economics intakes, and those on business programmes (who often have a predisposition for disliking orthodox economics, albeit often on rather unrigorous grounds).

While I do not myself teach macro or monetary courses, I agree with Alistair Dow that, in these spheres, or the realm of business environment courses as they are often referred to in business programmes, one can easily see how notions of money supply endogeneity, the role of uncertain expectations in the formation of investment decisions, et cetera, could play a central role in offering relevant courses to such students as contrasts to neoclassical ideas.

Moreover, while it could be said that Post Keynesians tend to understate the microeconomic policy implications of their work, this is not an inevitable consequence of their being a dearth of work in this area. For example, at Staffordshire, on a business economics course, I regularly make use of material from authors like George Shackle (concerning expectations et cetera), Geoff Hodgson and Brian Loasby (on the role of organisations as a means of coping with information problems and understanding organisational forms), and finally, Peter Earl and Fred Lee (on pricing decisions, suitably referencing Andrews, Hall and Hitch, etc.). Indeed my task has been made easier this year with the publication of Peter Earl's book, *Microeconomics for Business and Marketing*. Of course, standard neoclassical 'managerial economics' texts are also referred to, but this only serves to highlight the relevance of Post Keynesian ideas.

In short, therefore, my feeling is that Post Keynesians should see the current rise of business-related and multidisciplinary programmes as a potential platform for their ideas.

The second issue that I would like to address concerns the failure of the study group to attract ESRC funding this time. The study group has been a central feature of my five years as an academic. At the group I have had the opportunity to meet the academics whose work I have read and studied, listen to their new ideas and discuss both their work and my own in a convivial environment. I would thus like to take this opportunity to thank Philip Arestis, Vicky Chick, Sheila Dow, Malcolm Sawyer, Adrian Winnett and any others who have organised these sessions. I would also like to offer the following suggestions as to how the group may proceed in continuing as a forum for discussing Post Keynesian ideas.

- a) It is essential that the newsletter continues to exist.
- b) It could be expanded to include shortened versions of papers *a la* conference proceedings as well as other items of interest. this may involve the need for a newsletter to be supplied on subscription to cope with rising costs, as well as provide help for Sheila who I understand

edits the newsletter on her own. In a sense the newsletter could become a set of discussion papers, coupled with comments, and so on.

- c) I would encourage everyone to use e-mail. As Sheila notes, it is quite easy to get to grips with the basics and it provides an immediate source of access to individuals internationally as well as nationally to discuss work and collaborate. I know the second edition of the newsletter included requests for e-mail addresses. Mine is BSTPD@STAFFS.AC.UK. E-mail is a cost effective means of communication. Wider use of it could complement suggestions (a) and (b) above.

I guess that, now the group has met for the last time with funding from the ESRC (hopefully just for the present), beginning to think about these issues is not only opportune but also of paramount importance. As far as my own preferences are concerned, I would expand the role of the newsletter and, of the various options for organising seminars, establish perambulating sessions. I recognise that both of these suggestions increase the administrative load on those currently managing the group's activities. Hopefully I, and others too, would be prepared to help out here in keeping up the good work of those currently involved.

*Division of Economics, Staffordshire University.
14 December 1995.*

SEMINAR ABSTRACTS

Friday 3 November, UCL

John Foster, Queensland, 'The Logistic Diffusion Approach to Econometric Modelling in the Presence of Evolutionary Change'

The paper offers an approach to the modelling time series data in the presence of evolutionary change. The approach is built upon the self-organisation, suitably adapted for application in economics contexts, and operationalised through the logistic diffusion equation. This equation is used as a 'theory of historical process' in the presence of evolutionary development and is augmented by auxiliary hypotheses concerning the determination of the diffusion coefficient and the capacity limit. The example of Australian building society deposit growth during 1965–85 is used to demonstrate how the approach can be used to understand evolutionary dynamics from a 'macroscopic' perspective. It is argued that regulators and others in the policy process can gain an appreciation of the structural stability of the system in this way which is unavailable through conventional econometric methods or through detailed study of the behaviour of component institutions.

Friday 15 December 1995, UCL

Victoria Chick, UCL, 'Keynes's Theory of Investment and Necessary Compromise'

The paper rehearses some criticisms of Keynes's theory of investment. These criticisms have distinguished parentage (Kalecki, Robinson, Asimakopulos, Sraffa) and wide currency. They charge Keynes with constructing a theory of investment based on a variety of logical inconsistencies. I argue that most of these criticisms are correct, and that, while no-one ought to be seen supporting logical inconsistency, the root of the problem lies in the necessity of compromise when trying to give microfoundations to macroeconomics in a non-Walrasian world. The paper tries to identify the compromises Keynes made in order to construct his macroeconomics. There is no claim that these explanations were in Keynes's mind; this is a

rational reconstruction. There may be better theories of investment – in other words, compromises which you prefer. But I maintain that compromise is necessary, unless you want a Walrasian system, and I suggest that the compromises made were actually quite well chosen

John King, La Trobe, 'Hyman Minsky: The Making of a Post Keynesian'

The paper discusses the early articulation of Minsky's ideas and assesses the extent to which they can be regarded as Post Keynesian. Concentrating on his 1957 articles in the *Quarterly Journal of Economics* and the *American Economic Review*, and his 1964 report for the Commission on Money and Credit (which was written in 1960), it identifies a strong neoclassical element in Minsky's early writings. This includes a Wicksellian loanable funds theory of interest and the pre-Keynesian notion that saving determines investment; significantly, Minsky makes no attempt at this stage to represent his analysis as an interpretation of Keynes. It shows that there is also a significant Post Keynesian component in these articles, since Minsky already has an embryonic version of the Financial Instability Hypothesis and makes tantalising references to the possibility of an endogenous money supply. Kalecki's aggregate profit equation is crucial to Minsky's mature theoretical synthesis, but no trace of this is to be found in his published work before the late 1970s. The paper speculates on the reasons for Minsky's gradual evolution into a full-blooded Post Keynesian, concluding that his experience of real-world institutional changes and his personal (and essentially solitary) intellectual reflection contributed, in roughly equal measure, to his doctrinal motivation.

Craig Mackenzie, Bath, 'Ethical Investment: Some Practical and Theoretical Issues'

This paper surveys the various different kinds of ethical investment that exist in the UK – ethical investment unit trust, ethical microinvestment vehicles, institutional ethical investment funds and non-institutional forms of ethical investment. It explores the questions: what do ethical investments claim to achieve? what do they actually achieve? The paper then reports on some early findings from the qualitative research undertaken with ethical investors as part of the ESRC 'Morals and Money' project. Early indications suggest that the behaviour of ethical investors deviates in various respects from the predictions of standard consumer choice theory. New economic psychology theories fare a little better, but they too are limited in their ability to explain the specifically moral dimensions of ethical investment. The paper claims that a substantially more detailed understanding of how ethical investors interpret their own actions is required before the behaviour can be adequately accounted for.

CONFERENCES

Second Keynes, Knowledge and Uncertainty Conference, Leeds, 16–17 March 1996: see enclosed sheet.

Political Economy Research Centre Conference on 'Stakeholder Capitalism – Blind Alley or Best Hope?', Sheffield, 28–29 March 1996. Speakers include Meghnad Desai and Will Hutton. For further details contact Sylvia McColm, Political Economy Research Centre, University of Sheffield, Elmfield, Northumberland Road, Sheffield.

History of Economic Thought Society of Australia Ninth Conference, University of New South Wales, 10–12 July, 1996. Offers of papers (250 word abstract) by 1 April. Registration fee \$100, accommodation at \$40 per night at Basser College. For further information contact Peter Kriesler or John Lodewijks on P.Kriesler@unsw.edu.au or J.Lodewijks@unsw.edu.au, or fax (int prefix: 61–2) 313–6337.

International Summer School on the Production of the Built Environment, Middle East Technical University, Ankara, 2–7 September 1996. Main theme: changing social relations in cities: class, identity, clutter, ethnicity and gender. For more information contact Michael Edwards or Melih Pinarcioglu, The Bartlett, UCL, 22 Gordon St, London WC1H 0QB; fax: +44 (0)171 380 7502; e-mail:

m.edwards@ucl.ac.uk or ucftmmp@ucl.ac.uk or Oguz Isik, Dept. of City and Regional Planning, Middle East Technical University, Ankara, Turkey, fax: (90) 312 210 1250 or e-mail ioguzrorqual.cc.metu.edu.tr. Preliminary offers of papers to Melih Pinarcioglu and Oguz Isik January, final offers by May.

NOTICES

Adrian Winnett has taken over as Book Review Editor of the *Journal of Economic Psychology*. If any members have recent or forthcoming books which may be of interest to the journal's readership, they are invited to arrange for a review copy to be forwarded to Adrian at the Department of Economics, University of Bath.

Lectureship in Economics. The Department of Economics at Glasgow Caledonian University hopes to advertise a Lectureship in *The Economist* towards end-January 1996. MSc or PhD (at least in sight) preferred. Any informal enquiries to Professor Alistair Dow, Head, Department of Economics, Glasgow Caledonian University, Cowcaddens Road, Glasgow G4 0BA. Tel: (0141) 331 3310.

Economic Thought Society of Australia. There are 2 issues per year; next issue is no. 23. Contributors have included John Creedy, William Darity, Robert Dimand, Crauford Goodwin, Barry Gordon, Geoff Harcourt, Terence Hutchison, Phil Mirowski, Warren Samuels, Vince Tarascio and Donald Winch. Subscription \$A 15 in Australia and New Zealand, \$US20 elsewhere. For more information contact John Lodewijks at Sidney, e-mail J.Lodewijks@unsw.edu.au; fax: (int prefix: 61-2) 313-6337.

PUBLICATION OF PAST SEMINAR PAPERS

Adrian Winnett and Alan Lewis, 'Household Accounts, Mental Accounts, and Savings Behaviour: Some Old Economics Rediscovered?', *Journal of Economic Psychology*, September 1995.

BOOKS

J Holscher, A Jacobsen, H Tomann and H Weisfeld (eds), *Conditions of Economic Development in Central and Eastern Europe*, Marburg: Metropolis Verlag.