

2015

Who Are Our Allies? Who Are Our Customers?

David A. Westbrook

University at Buffalo School of Law, dwestbro@buffalo.edu

Follow this and additional works at: https://digitalcommons.law.buffalo.edu/other_scholarship



Part of the [Law Commons](#)

Recommended Citation

David A. Westbrook, *Who Are Our Allies? Who Are Our Customers?*, 5 *World Econ. Ass'n Newsl.* 3 (2015).

Available at: https://digitalcommons.law.buffalo.edu/other_scholarship/25

This Article is brought to you for free and open access by the Faculty Scholarship at Digital Commons @ University at Buffalo School of Law. It has been accepted for inclusion in Other Scholarship by an authorized administrator of Digital Commons @ University at Buffalo School of Law. For more information, please contact law scholar@buffalo.edu.

Who are our allies? Who are our customers?

By [David A Westbrook](#)

In the last WEA Newsletter (Issue 5-2, April 2015), Peter Swann provocatively asked "Who Are Our Allies?" Who "from outside the heterodox economics community" (presumably meaning readers of the WEA) would help "heterodox" (or "pluralist") economists foster "substantial change in academic economics"?

Swann's provocation read clearly enough, and I think the general thrust of his suggestions sounded sensible to many readers of the WEA, including me. Readers posted interesting comments, some of which influenced this response. That said, read more closely, "Who Are Our Allies?" comprises rather difficult assumptions and intentions, a by no means obvious sense of where intellectuals of a certain sort find themselves, and consequently, where such intellectuals should look for "allies," whatever that means in this context. What I'd like to do here is to disassemble Swann's piece a bit, and then reassemble it somewhat differently, with the intention of adding to his thinking about "allies," and who they might be.

To start simply: Swann began by identifying himself as a heterodox economist. Grazie Letto Gilles immediately amended "heterodox" to "pluralist," the WEA's now preferred usage. But no matter for present purposes: the assumption is that there is a core of economics, an orthodoxy or "normal." If there is a core, then there must be a periphery, where people holding different, non-orthodox, pluralist, etc., views are to be found. The WEA has positioned itself as an organization that provides fora for such peripheral views.

Almost by definition, normal science dominates university economics departments. That is, the core/periphery structure found at the epistemological level is replicated, and enforced, at the institutional level: relatively orthodox economists hold the vast majority of the relatively prestigious positions, from which they promulgate relatively orthodox economics to succeeding generations. Equally unsurprisingly, as Swann noted and a number of commentators emphasized, the orthodoxy has no desire to give up its privileged positions. Despite exceptions here and there, "the official mainstream response is either to ignore our criticism, or to give it a hostile reception."

So, to make the conflicts in Swann's piece graphic, the castle is held by the enemy, who has no intention of seeing the reasonableness of our demands (articles in RWER and the like), and who therefore need to be removed by force. The castle is quite strong, however, and consequently we should seek allies before we attempt an assault.

A preliminary question: why do we care? Why not just leave the castle to its own devices? Nobly, one might



care that the truth is being promulgated. Less nobly, those of us with unusual views on economic life might want prestigious positions and other emoluments for ourselves. (I know I do.) But Swann has another concern, which I share. "Mainstream economists continue to disseminate a flawed model of economics," "which can lead to serious errors," and in that case, "it is ordinary people who suffer."

Swann assumes that the university matters as the place where ways to view the economy are contested. Implicitly, if one is concerned about ordinary people being hurt by obtuse policies founded on orthodox economic thinking, one has to

care about academic economics. Hence the political desire to help ordinary people requires academic politics, specifically, to seek to diversify the economics faculty. More deeply, Swann seeks to realize populist intentions (helping "ordinary people") in what he implicitly asserts is a deeply bureaucratic society, in which the fundamental bureaucracy, the university, informs the actions of the private and public bureaucracies (corporations, regulators, etc.) that actually structure contemporary social life.

At this point, we seem to have reached a dead end. Bureaucracies are jurisdictional. So while a scientist or a sociologist might be sympathetic to a heterodox position, and a religious or community leader might be downright antagonistic to normal economics, what does that matter for bureaucratic purposes? They are not economists, and not privileged to speak *as economists*. They occupy different squares in the organogram. Thus the same argument that makes a university faculty an important objective (as the center of politics in a bureaucratic society) also make storming the walls with allies from other faculties almost unimaginable (because bureaucracies work by creating discrete jurisdictions). This is overly schematic, of course, but only slightly overstated.

To put the problem somewhat differently: at the level of general politics, of helping ordinary people, an elite's influence depends on its authority as an elite. Economists, pluralist or not, are only influential, helpful or hurtful, insofar as they are taken seriously as *economists*. Pluralist economists are outsiders, i.e., not in a position to speak for economics, and therefore taken no more seriously than ordinary citizens. Ahem. This would seem to foreclose politics, or at least make politics very difficult.

One response is to move what was "outside" to the "inside." The WEA has gone to great lengths to normalize different economic views, notably by founding peer-reviewed journals, and as recent missives from Ed Full-

brook suggest, is having some substantial success. To the same end, the very language of the community has softened, moving from the language of mental health, "autism," to "heterodoxy", to "pluralism" (after all, it's politically unsound to be against pluralism).

But these efforts at normalization are not enough, or at least not yet. As Swann notes, the WEA is still an outsider organization. The orthodoxy is secure within its battlements, despite the GFC, and inside the castle is where real politics is done, people are hurt or helped. Framed in this way, I don't think the problem is soluble, at least not within a reasonable time frame.

So let's try to reframe the question. A friendly amendment: instead of asking "who are our allies?" we might ask, "who might be interested in our thinking?" Who cares -- and frankly, who could benefit from -- a pluralist perspective on the economy?

Answering that question requires some generalization about what "a pluralist perspective" means. This is tricky: unifying the plural makes it less plural. But let me try by starting where Swann ends, with ordinary people who are hurt by bad policies founded on bad thinking. Swann's intention is, at its heart, political. His claim that economics departments need to be reformed rests on an assertion that getting it wrong in the university ultimately means getting it wrong in society.

Can we generalize, just a wee bit, about how orthodox economics gets it wrong? Notwithstanding their diverse views on many economic particulars, I think the vast majority of WEA members would (i) dispute the pretensions of orthodox economics to being a hard science, after the model of physics (with math!), and (ii) emphasize the political in what used to be called political economy. This is often expressed as a criticism of the status quo: in presenting itself as a hard science, with necessary conclusions, orthodox economics has obscured its politics, often leading to objectionable consequences not just in the university (impoverished minds) but in the world outside (impoverished people). So, to take the risky step of generalizing the pluralist positions expressed in the WEA, I think it fair to say that the vast majority of the WEAs readership would urge a more candid recognition of the political (humanistic) nature of political economy as a discipline, and the political (how do we structure our lives together?) character of markets themselves.

If this is even halfway right, then it seems likely that our "allies," i.e., the people interested in our work, would be people interested in humanist thinking about how markets structure the social. Rather than "allies" we should be looking for "customers," people who can use our thinking to further their own interests, which may be intellectual, political, or simply private. Moreover, our customers may have influence and authority of their own.

Specifically, let me suggest four contexts in which pluralist insights and approaches to economic life might be or are (in my limited experience) welcome.

A. Central Banking.

Central bankers encourage, or discourage, economic activity through macroeconomic policy, which is to say that the parameters of marketplace life are not given, but are subject to political contestation. Indeed, central banking law implicitly acknowledges the inherently politicized nature of the enterprise, and takes care to insulate central bankers from short term political pressures. Moreover, contemporary central banking, often under the rubric of inflation targeting, is acutely aware of the dialogic character of economic life, that is, the social contexts in which signals of various sorts are transmitted, are received, and ramify. See Douglas Holmes (2014) *Economy of Words: Communicative Imperatives In Central Banks*, Chicago, U of Chicago Press. And this is before we get to the political aspirations, constraints, and consequences of central banking in times of crisis. Thus central bankers, and those concerned with central banking (everybody), ought to be interested in what many participants in the WEA offer: economically savvy, worldly, research into and thought about policy problems, conceivable interventions, and plausible consequences.

B. Regulation and its *Doppelgaenger*, Lobbying.

Central banking might be considered a special case of the more general phenomenon of economic regulation, by which I mean setting the rules of the game in which marketplace activity happens. For what little it may be worth, I have long argued that just as making rules affects way games are played, regulation affects the character or output of the markets in question. See Westbrook (2010) *Out of Crisis: Rethinking Our Financial Markets*, Boulder: Paradigm Publishers. Thus deciding whether to impose or not impose this or that regulation rests on an ex ante sense of what we wish to see in a given marketplace, an aesthetics of markets.

Lawyers -- both regulators and those who appear before them, generally speaking, lobbyists -- do this unconsciously all the time. Lawyerly argument often has the form: if Rule X [is/is not] promulgated, the world will look [better or worse]. Where pluralist economics differs from orthodox economics is in insisting that such political choices are not incidental, greater or lesser deviations from "the economics." Political choices (what do we want this market to do, how and for whom?) are not sadly necessitated by imperfect information, self interest, and second-best options, but instead are integral to markets themselves, of whatever configuration, and hence are central to political economy.

C. Other Social Scientists.

As Swann noted, a variety of other social scientists disagree with economic orthodoxy, sometimes quite strenuously. Such disagreement, however, has its own uses within the academy, notably for setting up a "straw man" against which to structure one's own argument and text. So much social science argument is of this form: With regard to some question Q, the economists say X, and we know X cannot be true because of (Y1, Y2, Y3 . . . Yn). Instead, Z is true.

Pluralist economics can help other social scientists by

helping to understand Z. Economists, whether pluralist or orthodox, have concerns and perspectives that are different from those central to other disciplines, worries about incentives, information, structure and structural advantages, and so forth. So long as their work is good (attends to the world), pluralist economists can offer illuminating insights, that other academics can use in their own domains.

D. Computer scientists.

Computer scientists are used to creating and thinking about bounded contexts in which fairly autonomous actors compete and cooperate according to well defined protocols. That is, the socially constructed and multiparty nature of computer networks mirrors that of marketplaces. To make matters even more interesting, financial and other markets are computerized. Market and network not only mirror one another, they are imbricated (yet distinct, or seen as distinct). There is much work to be done here, especially concerning questions of systemic stability and operating under conditions of partial trust, about which the GFC has not yet taught us enough.

E. Natural scientists and scholars generally.

Swann noted that natural scientists have been some-

what suspicious of orthodox economics, in particular, of the confidence in abstract mathematics unsupported by empirical evidence. As we have seen, however, jurisdictional boundaries serve to render such misgivings ineffectual.

Pluralist economics can, however, be of use to scholars in a different way. Within the bureaucratic university, and in grantland, scholarship is a commodity. One hesitates to admit that scholars, too, are commodities, although we do not (yet) trade them in quite the cavalier fashion in which pro sports teams deal athletes and options amongst themselves. Pluralist economics could help scholars better understand, and perhaps carve spaces out from, the markets in which the business of their work, and so much of their lives, is conducted.

To conclude: the castle won't be stormed. At some point, the lively intellectual trade going on in the fair-ground outside the battlements simply will be too profitable for the guard to be able to stand their own gray walls. They will come forth of their own accord, leaving the drawbridge down, the keep undefended. In due course, the castle will reopen as a boutique hotel, pluralist indeed. Or so I like to think.

A critique of Nominal and Real macro Unit Labour Costs as an indicator of competitiveness

By [Merijn Knibb](#)

'Unit Labour Costs' (ULC) are a staple of macro-economic statistics. As a measure of labour costs per unit of real GDP they are calculated by the OESO, Eurostat and the Bureau of Labour Statistics and they figure prominently on the website of the ECB. They are also one of the core variables included in the [Macro-Economic Imbalance Procedure](#) of the European Union which indicates their political significance. After about 2009, Eurozone countries were under strong pressure to decrease their ULC, at least relative to other countries, as (relatively) high ULC were understood to be a sign of low competitiveness. Look [here](#) for a Draghi Speech which states this. The preferred way to decrease ULC was to moderate or halt wage increases or even to slash wages. However, there might be something wrong with this line of thinking. Graph 1 shows that after 2008 some countries indeed managed to lower ULC (in this case: Nominal ULC or NULC, see below), not just relative to other countries but even in absolute sense. But was this caused by keeping wage increases low or even by lowering wages? Graph 2 (see over) shows that Greece and Ireland, which witnessed a comparable total decrease in NULC, had a radically different development of wages.

This suggests that other factors were important, too. Might wholly different developments lead to comparable changes in NULC? If this is the case, can NULC still be understood as a valid indicator of competitiveness? Below, these factors will be investigated and it will be

argued that NULC should not be used as an indicator of macro productivity and competitiveness. On the micro level, wage costs per unit of product – such as wage costs for installing a solar panel – are indeed an important indicator of productivity. However, on the macro level this is not the case. GDP (the denominator in the formula) is an aggregate based upon the aggregation of sectors with wildly different labour costs (see graph 3 below). These sectors are aggregated using weights which, because of Schumpeterian dynamics or booms and busts, can change quite fast. This can lead to changes in NULC which are sometimes even in the opposite direction to changes in wages levels! Also, many of these sectors have next to no connection with the competitiveness of an economy. Importantly, competitiveness is on-

