

Beyond stimulus versus austerity: pluralist capacity building in macroeconomics

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The Economist

JULY 18TH–24TH 2009

Economist.com

Britain agonises about Afghanistan

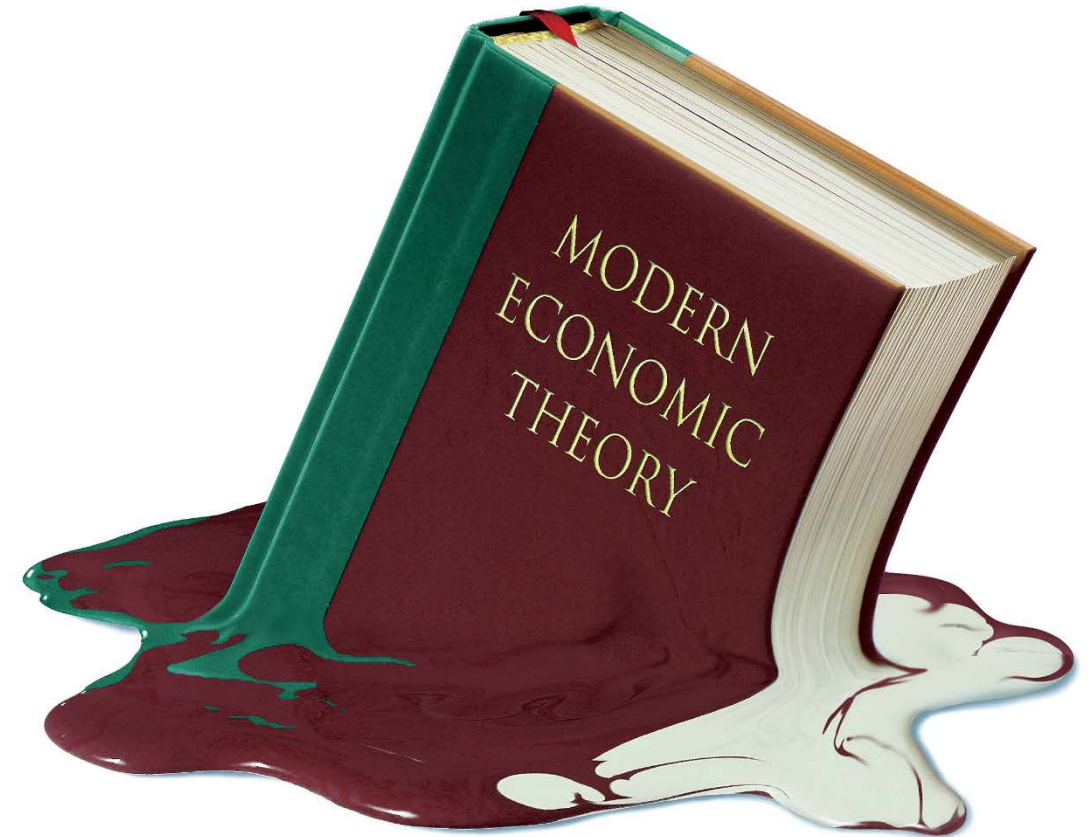
The rot in Japan's governing party

Europe's energy insecurity

Goldman Sachs's record profits

Summer camp for atheists

WHY PLURALISM AT THE INTRODUCTORY LEVEL?



**Where it went wrong—and how
the crisis is changing it**

Answers to the question posed by *THE ECONOMIST*:

- Self-fulfilling prophecy of neoclassical economic assumptions in models & behavior banking sector, leading to TBTF and the crisis
- Efficient Market Hypothesis proven wrong
- Economics students walking away to business schools where more realism is taught
- Relevance of Keynesian policy and QE after the crisis
- Recognition of increasing inequality as an economic problem (*Piketty, OECD, IMF, UNDP*)

Method that I use in my book & MOOC

- *Country context* from across the world
- *Real-world* examples
- *Four theories* in every chapter: from *broad* to *narrow*
 - social economics
 - institutional economics
 - Post Keynesian economics
 - neoclassical economics
- *No judgments* of theories

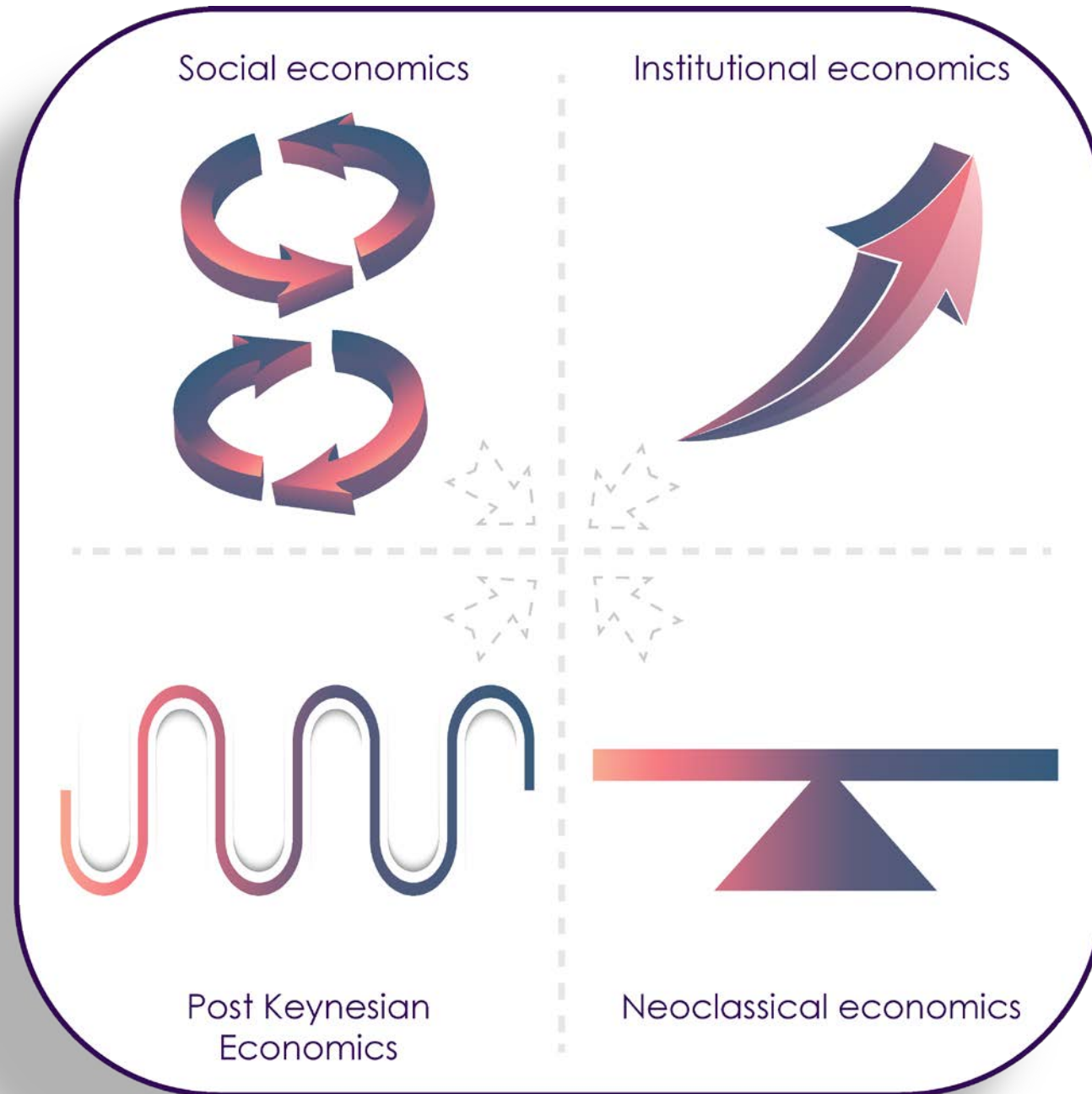
Advantages of a pluralist method

Prevents two pedagogical traps:

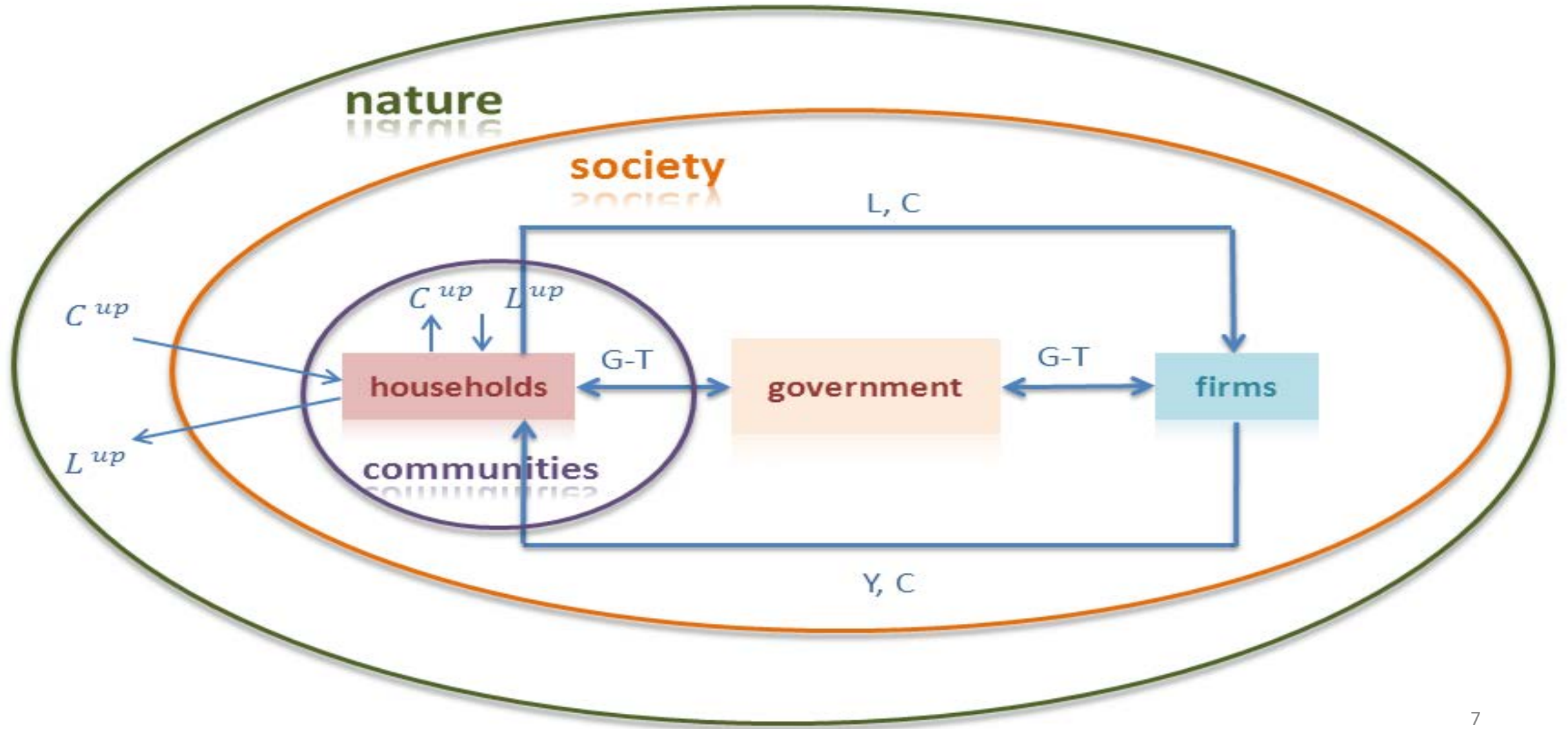
- Presenting & critiquing neoclassical economics: crowds out time
- Neoclassical economics bashing: wasting time

Allows more real-world context:

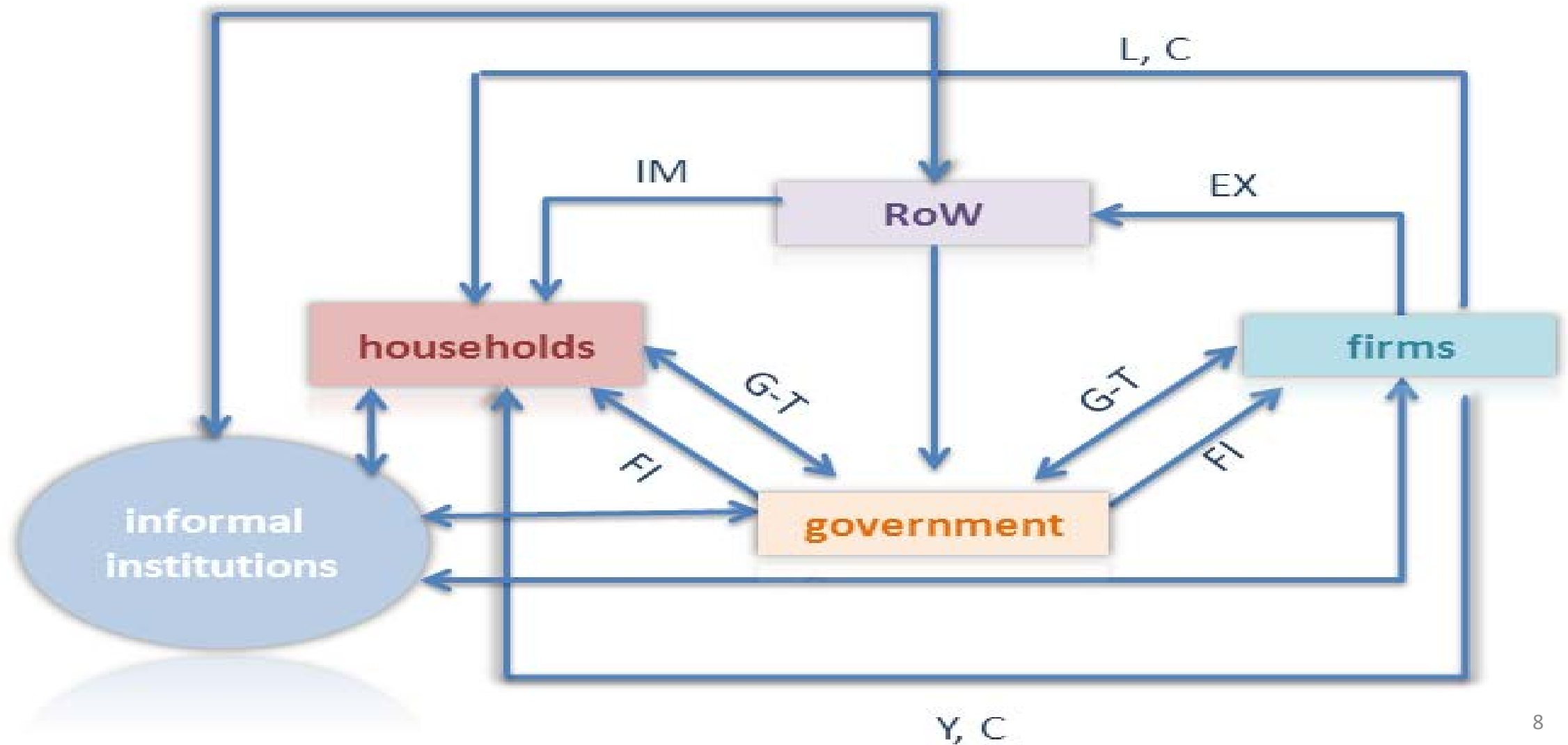
- International orientation (Americas, Europe, Asia, Africa)
- Key issues that students are concerned about (crisis, global warming, poverty, inequality, unemployment)



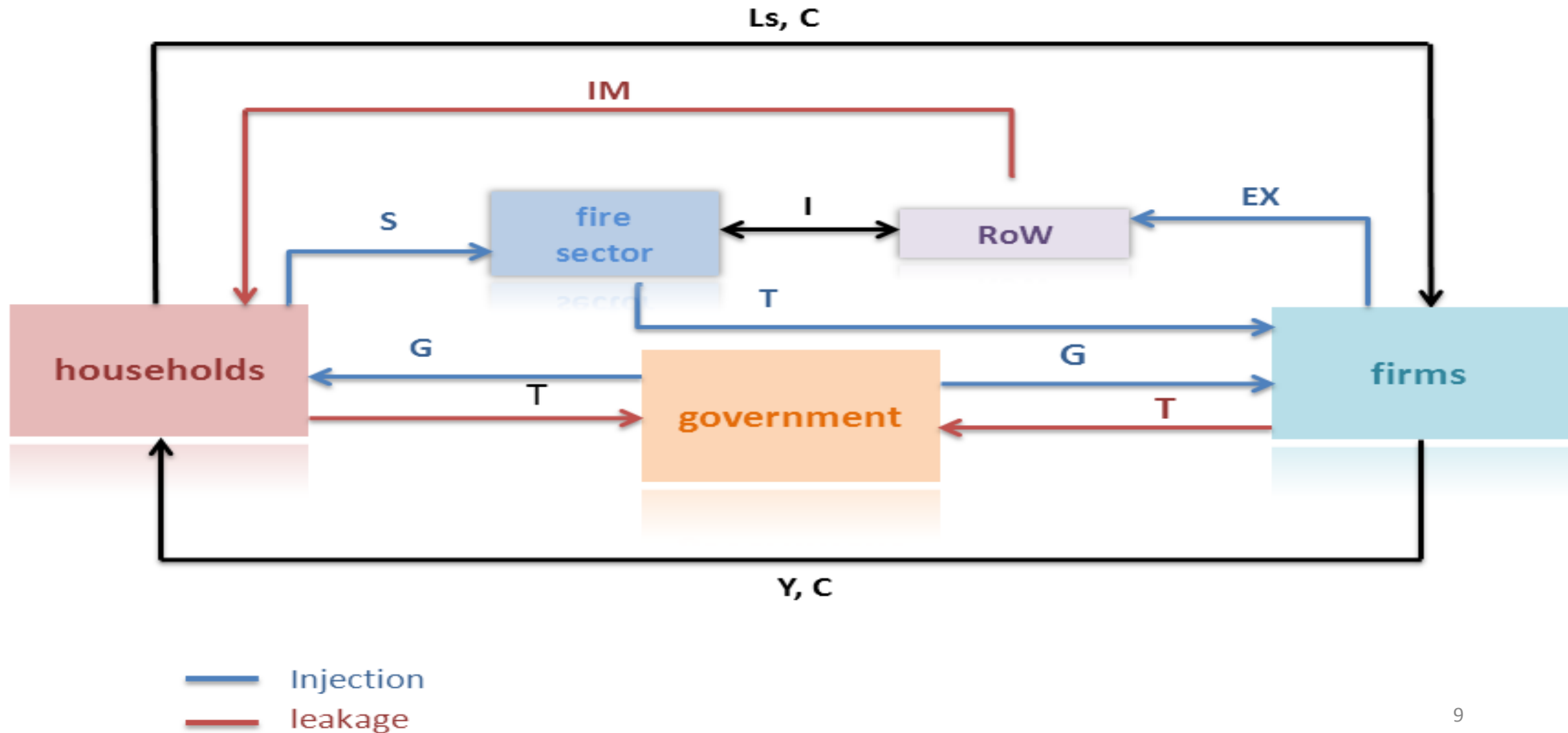
Social economics: embedded economic flow



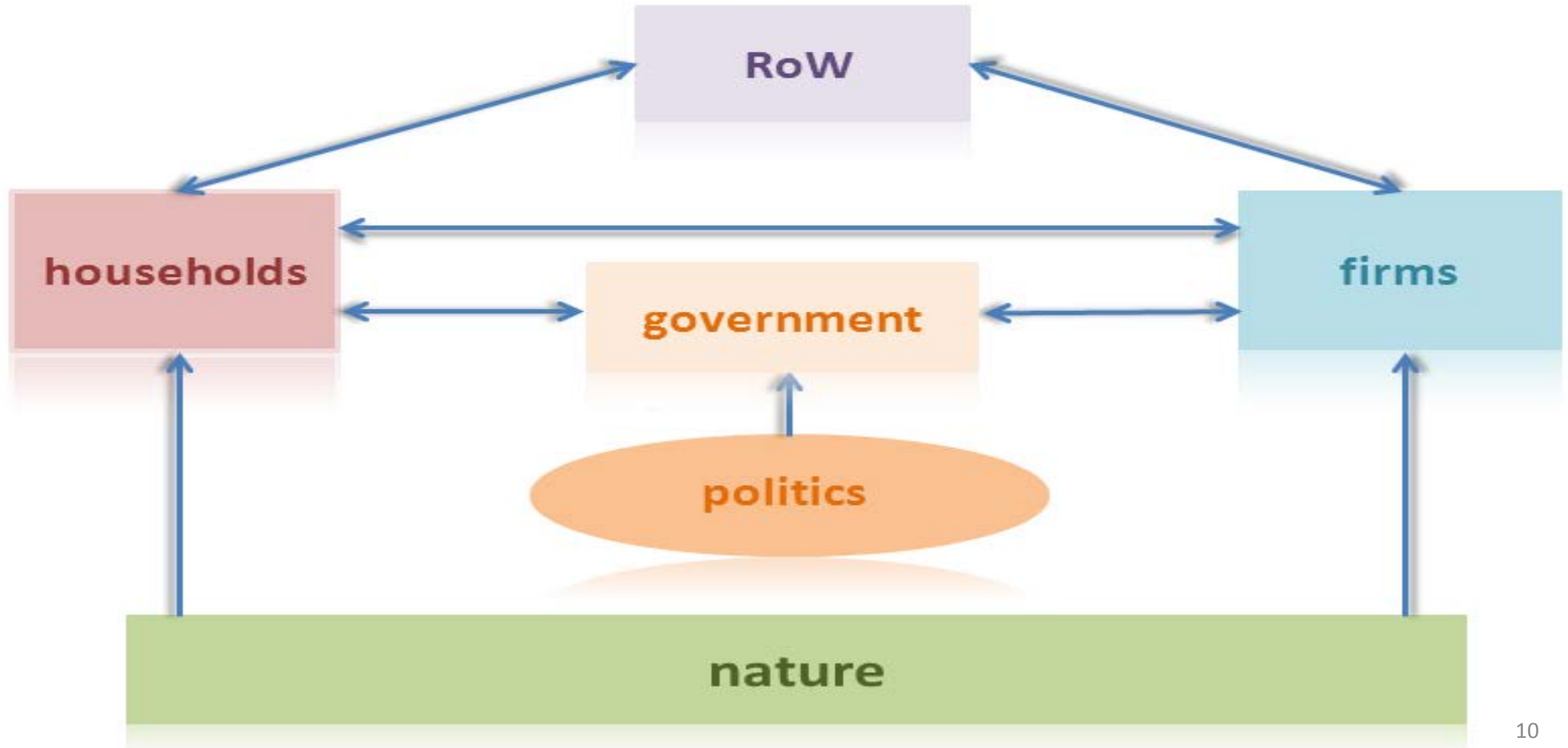
Institutional economic flow



Post Keynesian open circular economic flow

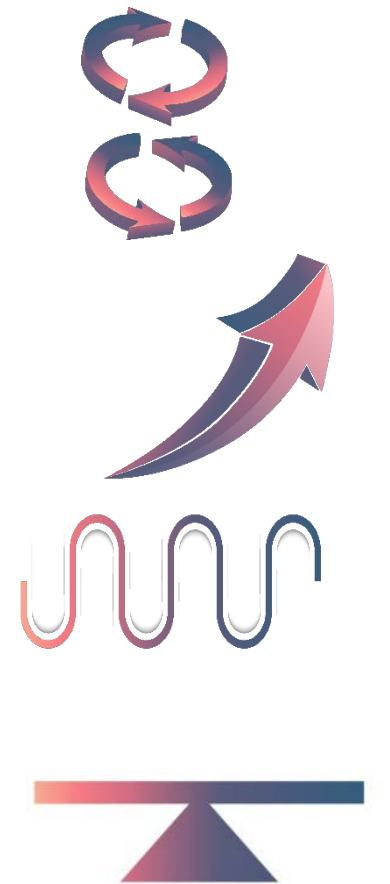


Neoclassical closed systems flow



Growth theory differences: “X”-factor

- Social economics: social cohesion
- Institutional economics: developmental institutions
- Post Keynesian economics: endogeneity of r and g
- New growth theory: T and HR



Social economics



Embedded economy: social contract

■ Firms

- reduction of transaction costs
- legitimacy

■ Government

- political relationships
- social relationships

■ Community economy

- paid and unpaid work
- consumer goods and voluntary services
- conservation of nature

Money as a social relation

- Money has four functions:

- unit of account
- means of exchange

$C - M' - C'$

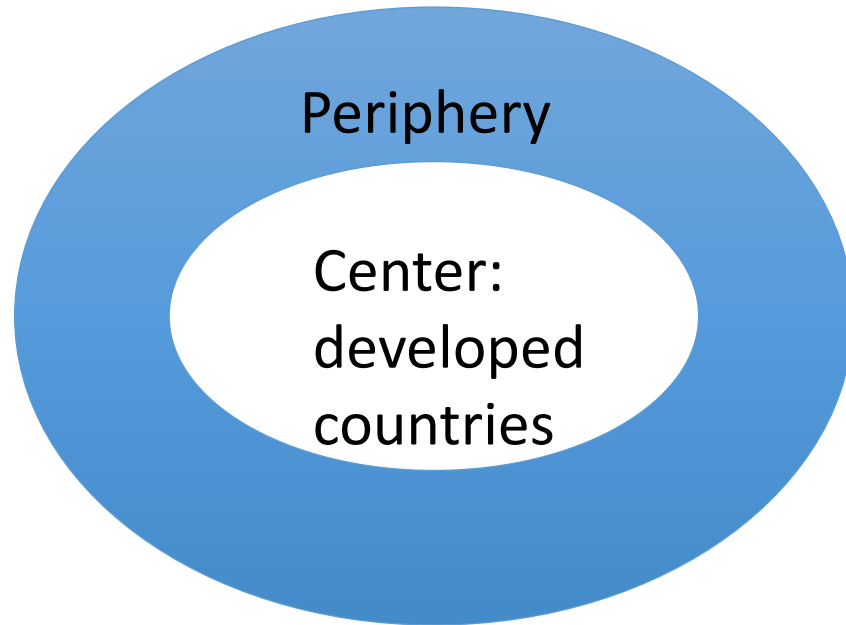
- store of value
- means of accumulation

$M - C - M'$

- Money is a social relation of trust and debt (IOU)

- Money enters the economy as debt

Dependency theory



Prebisch-Singer hypothesis: increasing inequality

Global Value Chain analysis

- Exports requires imports of inputs -> low VA
- Lead firms in GVCs tend to be oligopolistic -> surplus profit
- Oversupply of inputs to GVCs -> race to the bottom



Multidimensional wellbeing

- Human Development Index: 3 capabilities
 - Income
 - Life expectancy
 - Schooling
- Comparison HDI rank and GNI rank
 - $\text{HDI} - \text{GNI} > 0$ **strong** human development investment
 - $\text{HDI} - \text{GNI} < 0$ **weak** human development investment

Bangladesh

+10

Pakistan

-10

Multidimensional poverty

- Multidimensional Poverty Index (MPI): 9 deprivations
 - more precise measurement -> higher poverty rates
 - measures what people are able to do
 - reveals most urgent needs of the poor

Bangladesh
58% MPI

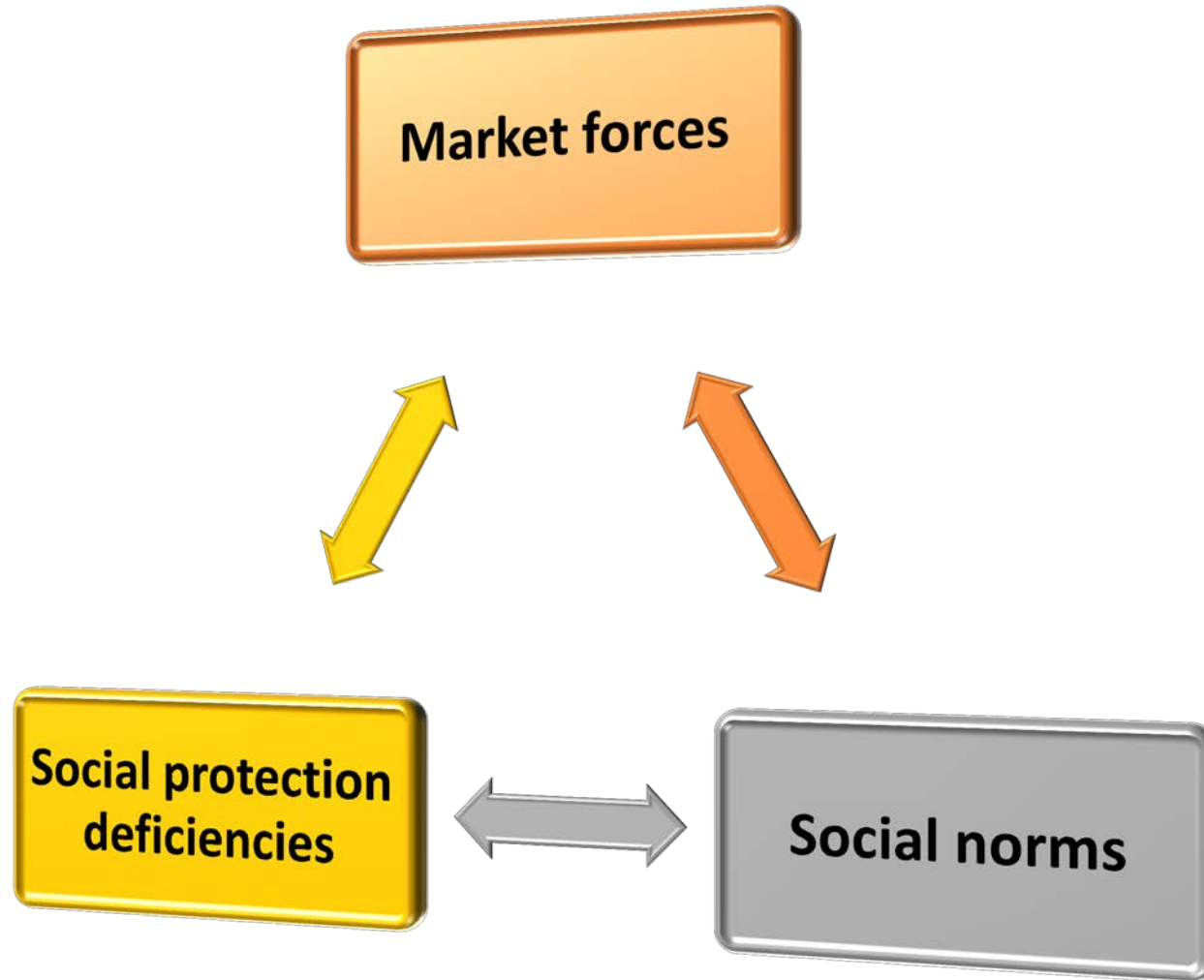
Nepal
44% MPI

Difference MPI & HDI?

Bangladesh: **58%** poverty (income rank 136)

Nepal: **44%** poverty (income rank 168)

Poverty explanation: social exclusion



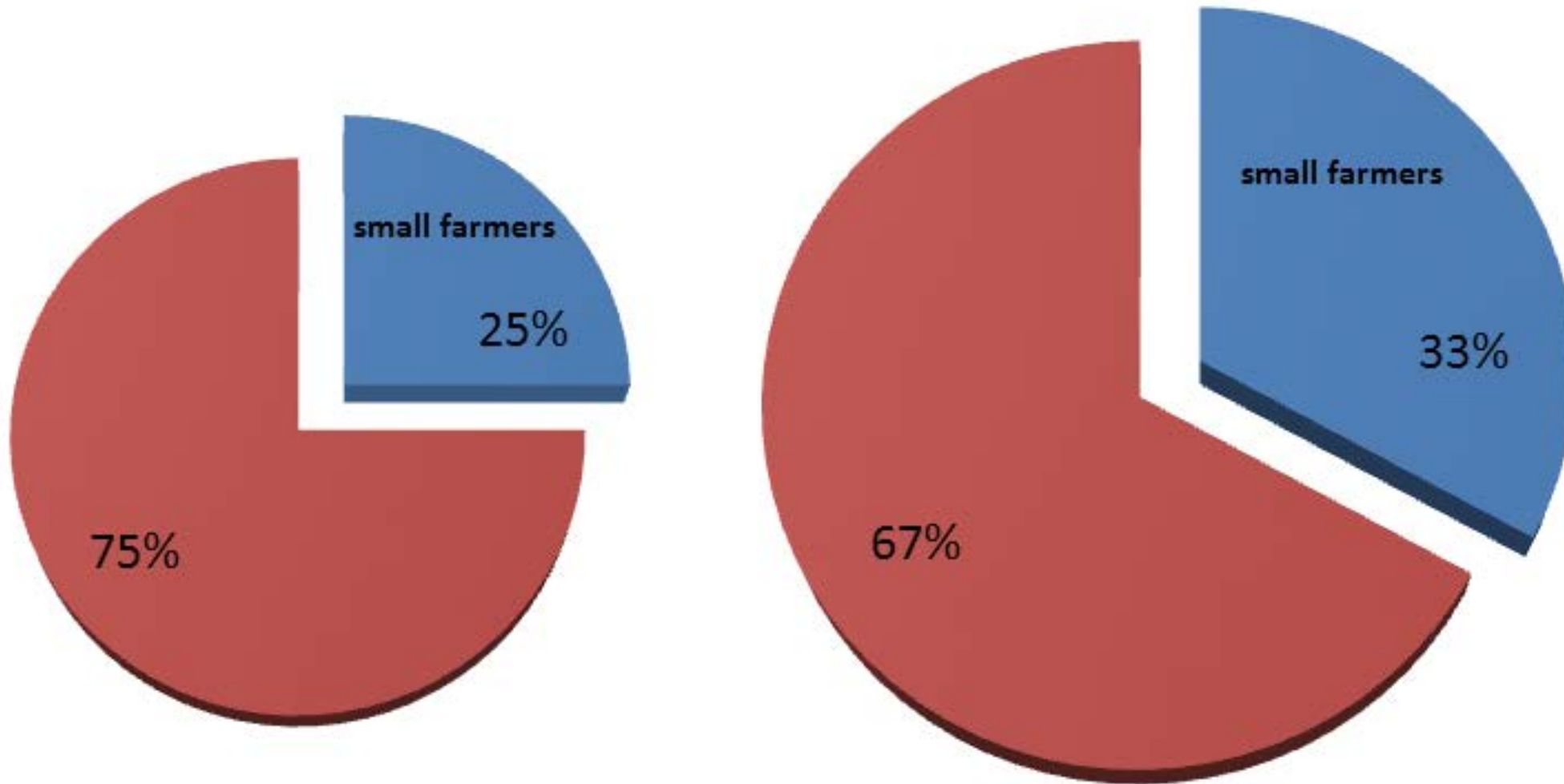
Institutional economics



Institutions of growth

1. State-owned firms beyond public good production (KLM)
2. State-owned banks and development banks (Brazil)
3. Land-reform and income redistribution (South Korea 1950's)
4. Widely accessible and good quality free education at all levels (MDG)
5. Good quality health care and sanitation (MDG)
6. Industrial policy including subsidies for selected growth sectors (EU)
7. First labour-intensive, then capital/technology catch-up (Asian Tigers)
8. Capital account controls and selective FDI (India)
9. Infant-industry protection (Europe 19 & 20th century)
10. Rule of law, even with high corruption (China)

Efficiency of land redistribution



Trade patterns: path dependency

	Exports from Mercosur to EU (%)	Imports of Mercosur from EU (%)
Agriculture	74	11
Manufacturing	26	89

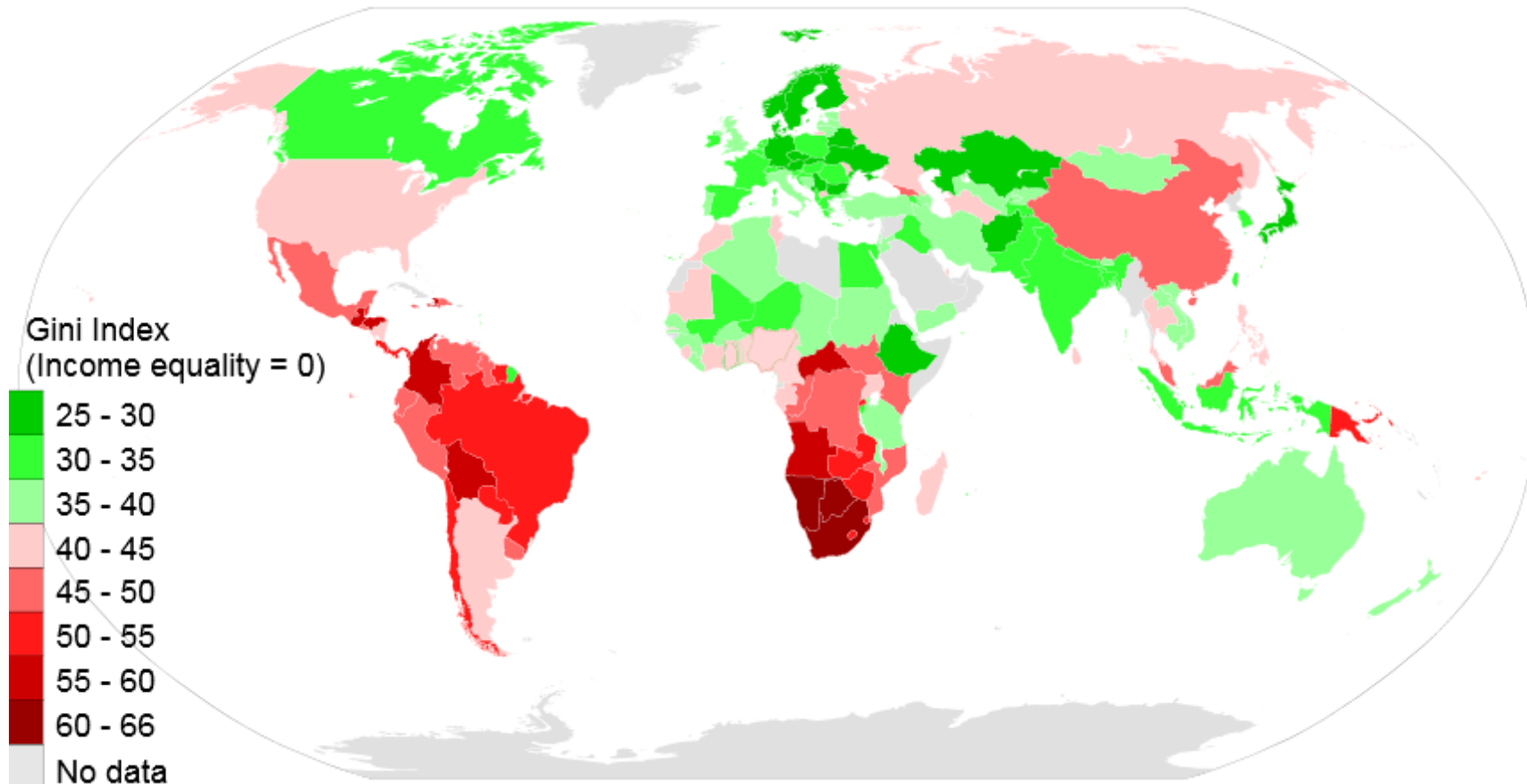
Infant industry protection in 20th century

	1875	1931
Austria	15-20	24
Belgium	9-10	14
France	12-15	30
Germany	4-6	21
Italy	8-10	46
Russia	15-20	
Spain	15-20	63
Sweden	3-5	21
Switzerland	4-6	19
US	40-50	48

Historical import tariffs

Vertical inequality

... income inequality has increased since 1980s



Data: 2014

Horizontal inequality

... between social & geographical groups

Country	Gender Equality Index (2010)
Oman	0.70
Egypt	0.65
Yemen	0.59

Feminist economics

1. Post Keynesian feminist economics
2. Institutional feminist economics
3. Neoclassical feminist economics

Why feminist economics?

1. Brings in horizontal inequality
2. Cross-cutting perspective
3. Strengthens pluralism
 - unpacks Rational Economic Man
 - brings in the Care Economy and unpaid work
 - adds a new form of power

Post-Keynesian feminist economics



Feminist economics: gender matters

- Gender
 - Dualisms of PKE are gendered, with market, money, economic man being preferred over household, unpaid work, and economic woman
- Household
 - PK household: site of consumption/spending
 - FE-PKE: roles in households -> interdependence of supply and demand
- Unpaid work & care
 - Caring spirits vs animal spirits; caring goods vs market goods
 - Unpaid work as stabiliser of economic cycles (decline market C and increase unpaid C)

Post-Keynesian economics: money matters

- Uncertainty
 - Women's life events-> expectations
- Non-equilibrium
 - Open system, nonlinearities
 - Nonlinear models
- Endogenous dynamics
 - Money and labour are endogenous
 - Unpaid work and care, and households: feedback effects (lower multiplier?)

Common themes

- Distribution
 - Gendered propensity to consume
 - Gendered liquidity preference
- Institutions
 - Asymmetric institutions (gender division of labour)
- Two-way analysis
 - Differential economic effects on men and women
 - Effects of gender relations on economic variables (exports, wage sum, investment, value added, savings rate) => effect on AD?

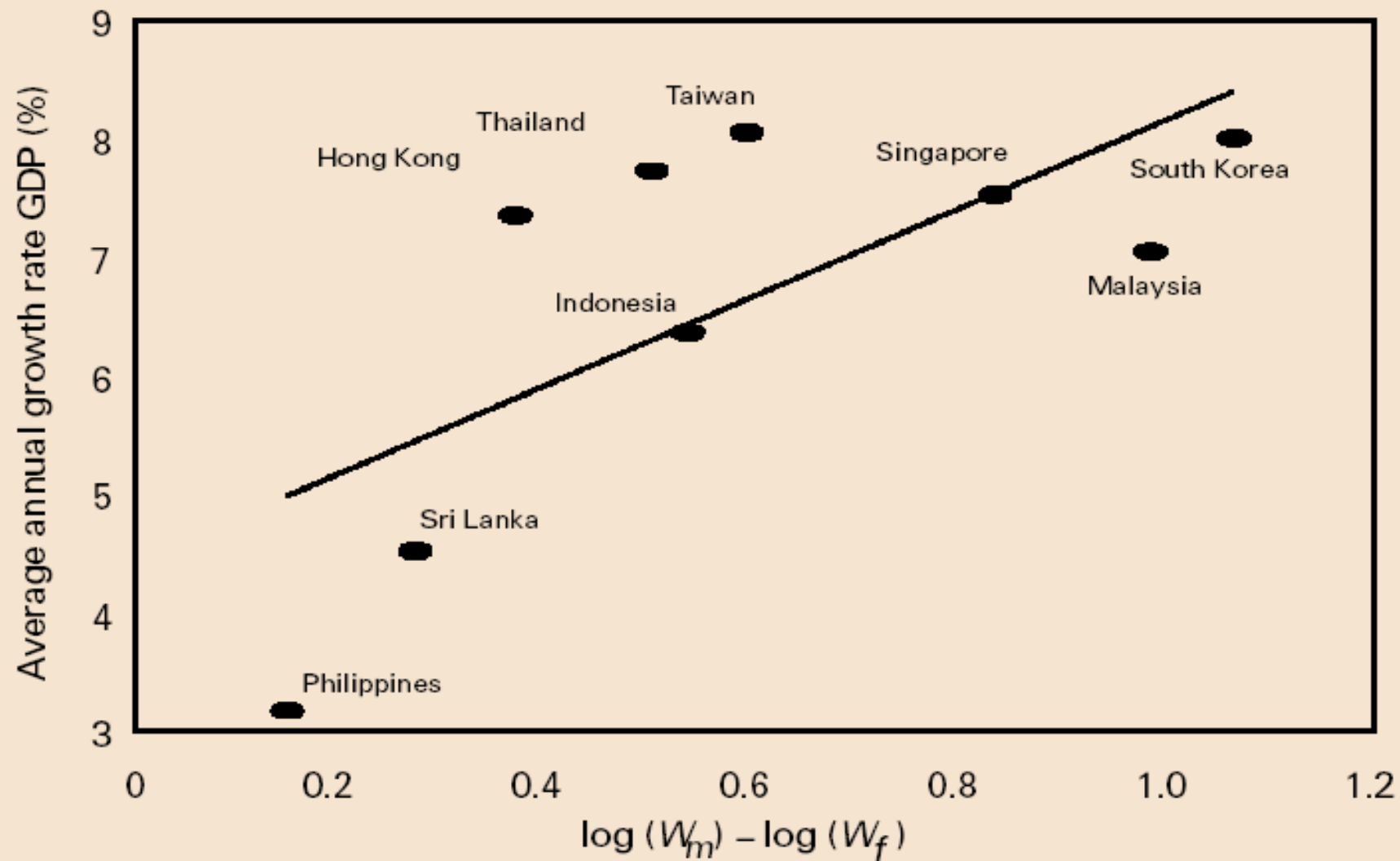


Figure 2 Growth rate of GDP, 1975-95, and gender wage gap

Stephanie Seguino, 'Gender Inequality and Economic Growth: a Cross-Country Analysis' *World Development*, 28 (7), 2000: 1211-1230; and *Feminist Economics*, 2000.

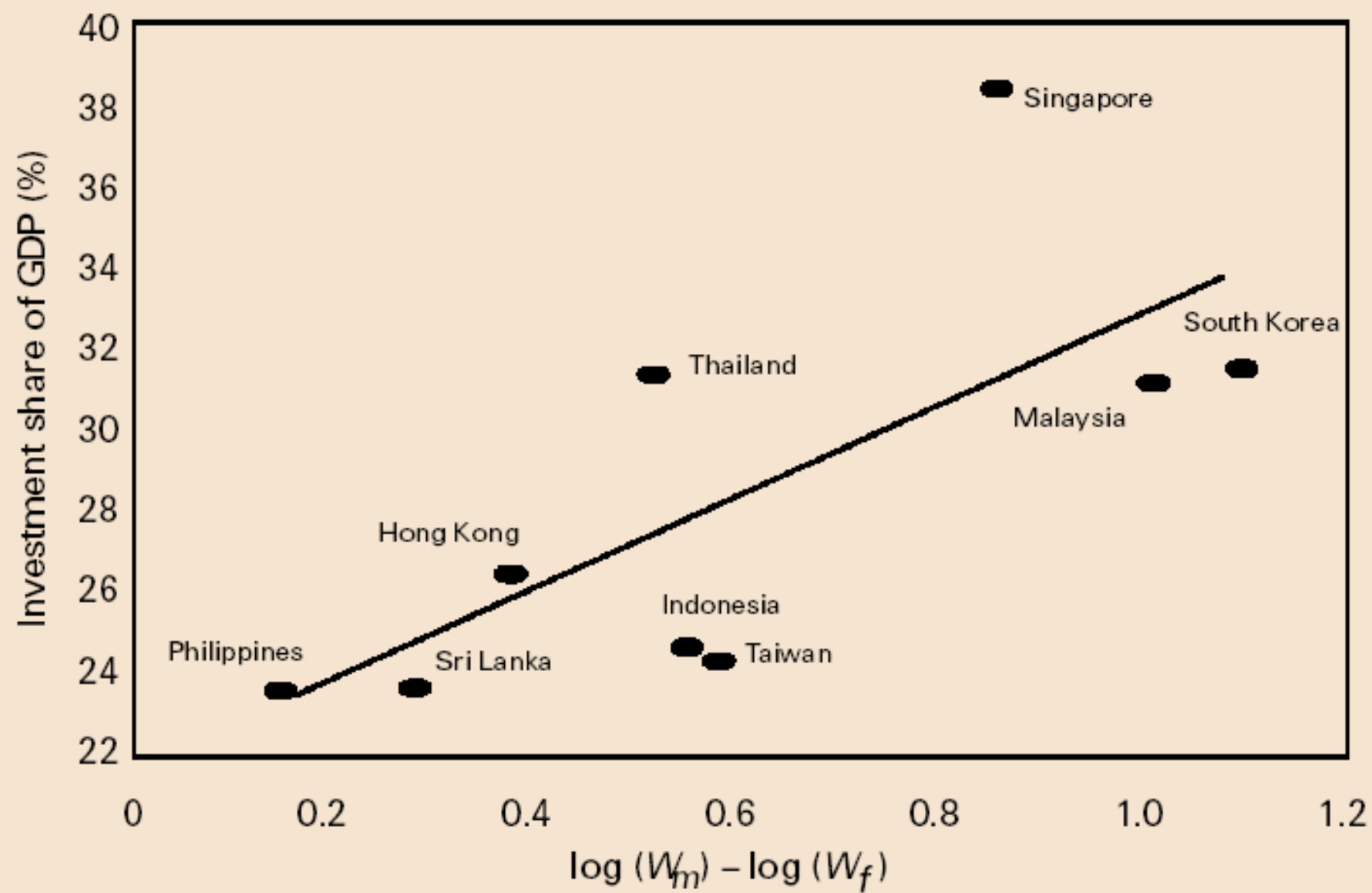
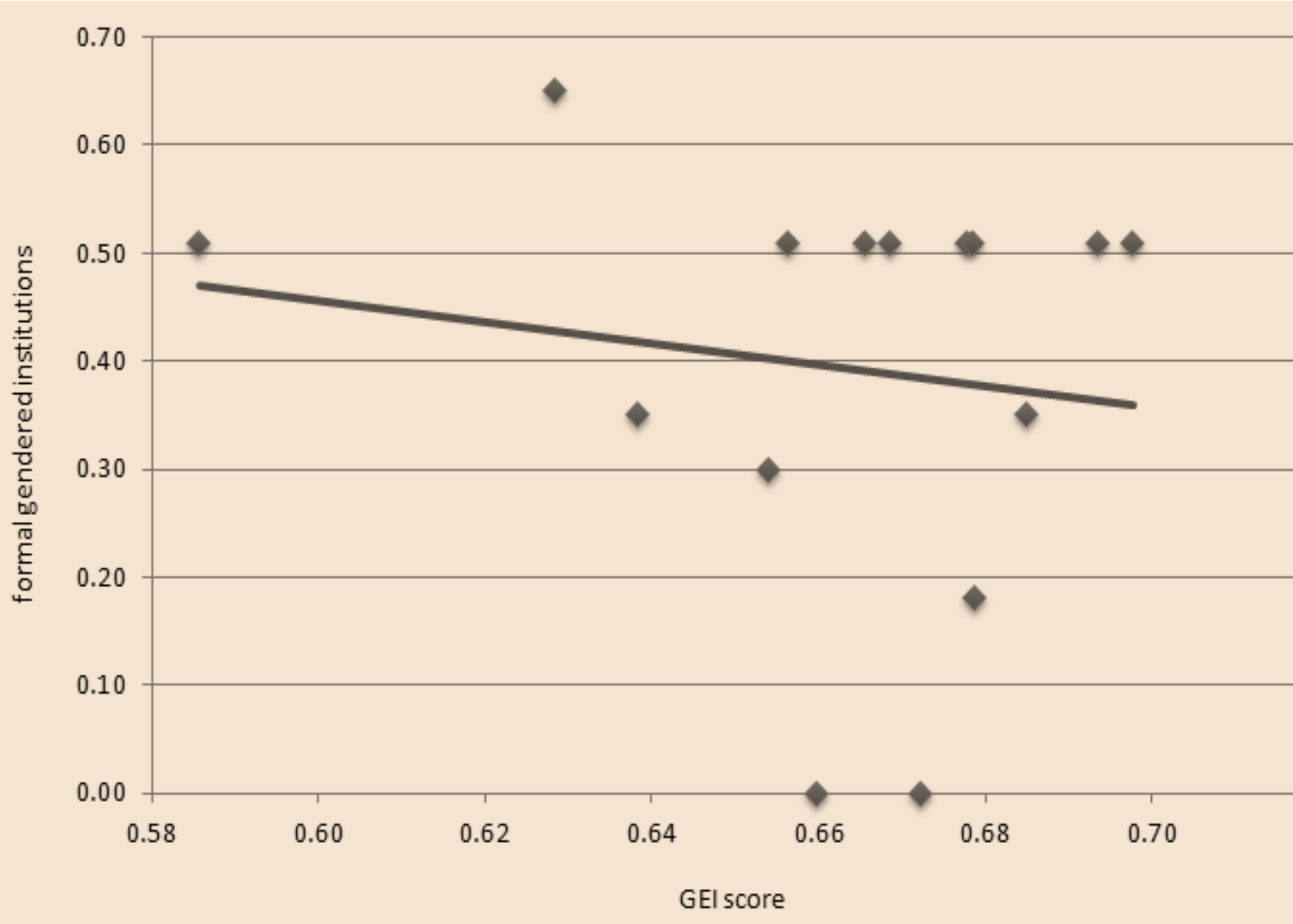


Figure 3 Investment and the gender wage gap, 1975–95

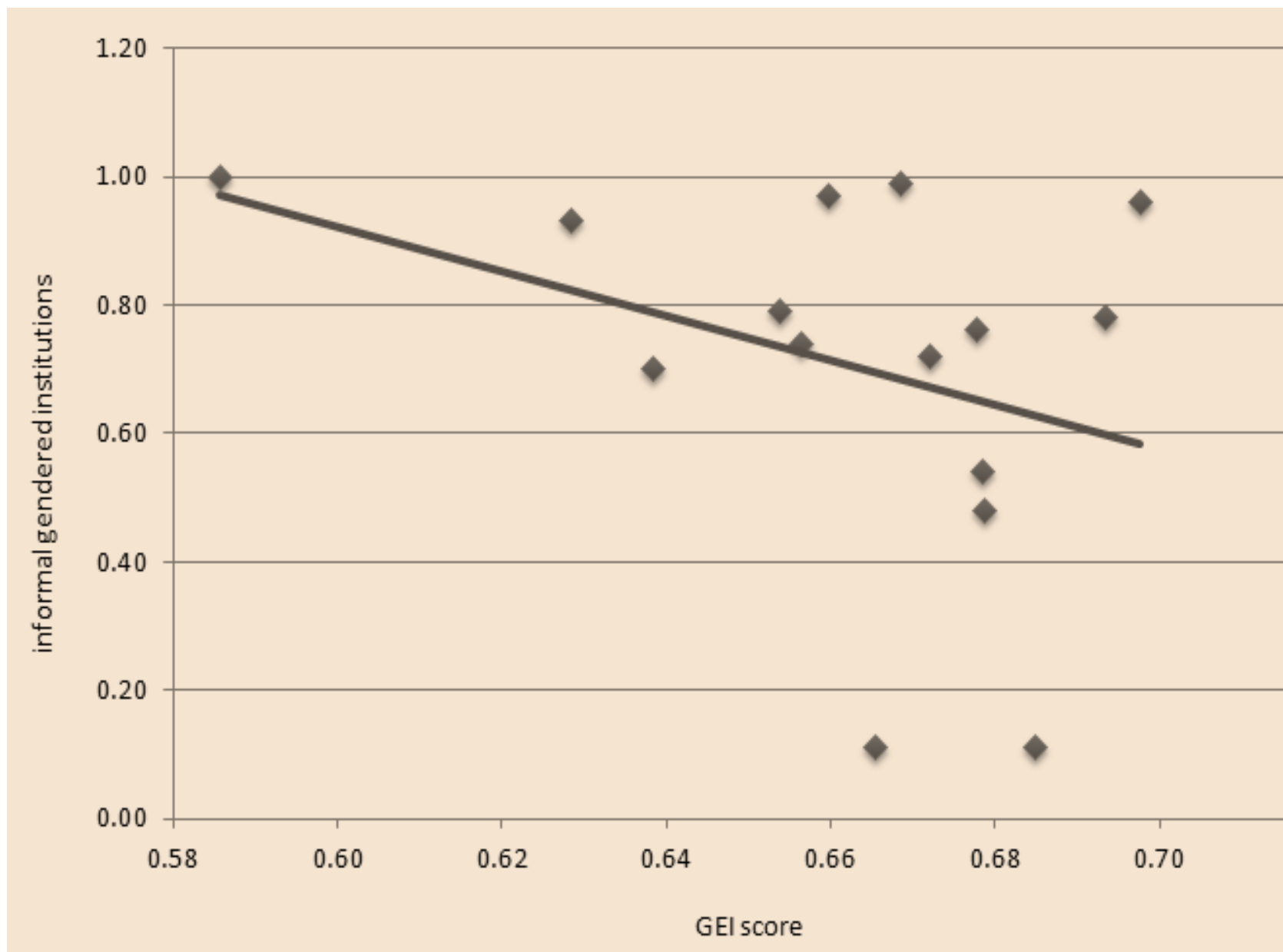
Institutional feminist economics



Constraints to women's access to resources & gender equality, MENA region

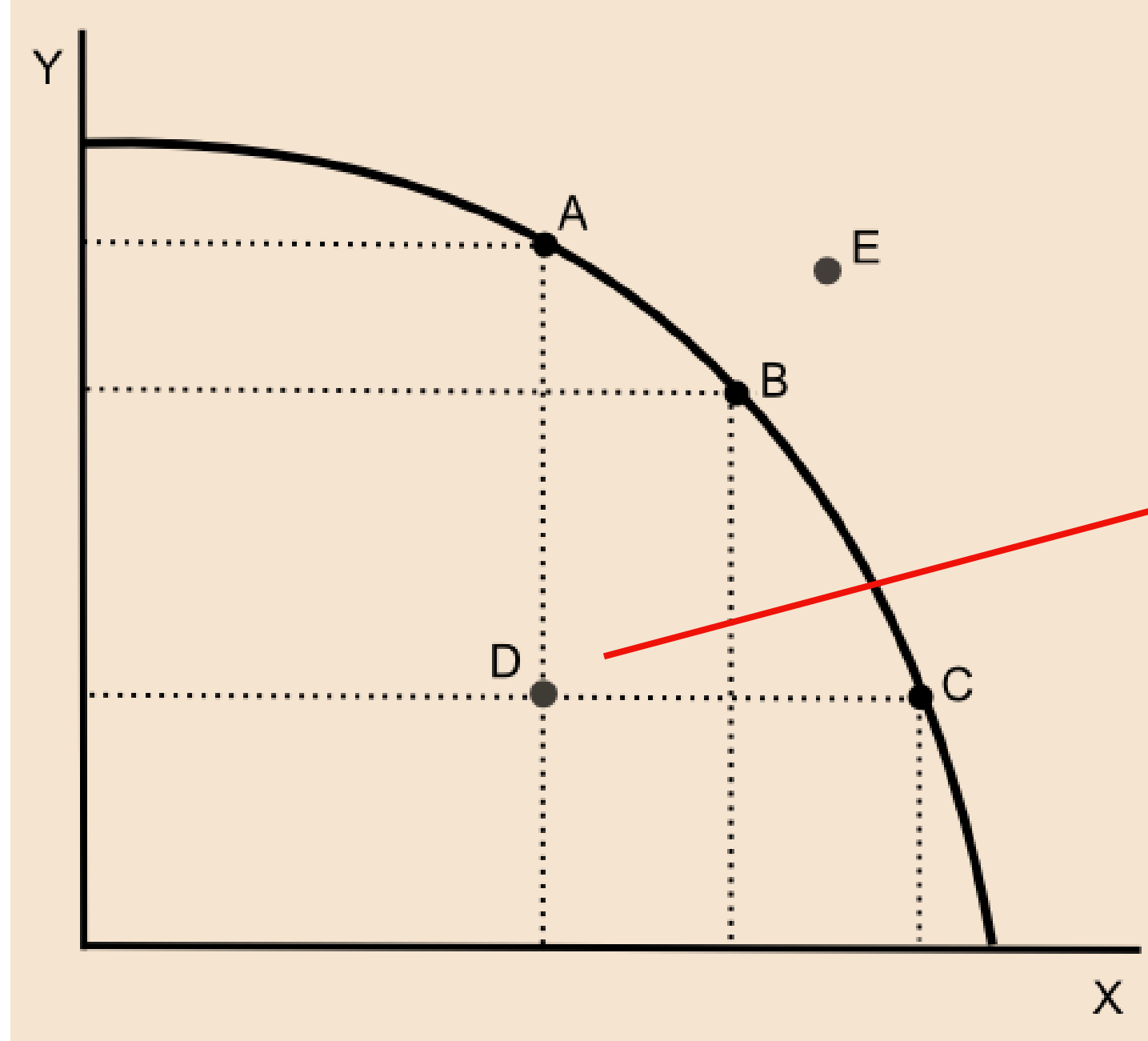


Constraints to women's civil liberties & gender equality, MENA region



Neoclassical feminist economics





Gender inequality:

lack of access to resources for women

Production possibility frontier

Conclusion: pluralism at the macro level!

- It is possible
- It is necessary
- It is a response to the demands of the Rethinking Economics movement
- It is macroeconomics to its full potential

Thank you!

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