Beyond stimulus versus austerity: pluralist capacity building in macroeconomics

FMM conference ‘Towards Pluralism in Macroeconomics”
Berlin, 22-10-2016

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WHY PLURALISM AT THE INTRODUCTORY LEVEL?
Answers to the question posed by *THE ECONOMIST*:

- Self-fulfilling prophesy 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

- Households
- Government
- Firms
- Politics
- Nature
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
    \[ C \rightarrow M' \rightarrow C' \]
  - store of value
  - means of accumulation
    \[ M \rightarrow C \rightarrow M' \]

- 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
  - HDI – GNI > 0 **strong** human development investment
  - HDI – GNI < 0 **weak** human development investment
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% 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

- Small farmers: 25%
- Small farmers: 33%
- 75%
### Trade patterns: path dependency

<table>
<thead>
<tr>
<th>Sector</th>
<th>Exports from Mercosur to EU (%)</th>
<th>Imports of Mercosur from EU (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>74</td>
<td>11</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>26</td>
<td>89</td>
</tr>
</tbody>
</table>
## Infant industry protection in 20th century

<table>
<thead>
<tr>
<th>Country</th>
<th>1875</th>
<th>1931</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>15-20</td>
<td>24</td>
</tr>
<tr>
<td>Belgium</td>
<td>9-10</td>
<td>14</td>
</tr>
<tr>
<td>France</td>
<td>12-15</td>
<td>30</td>
</tr>
<tr>
<td>Germany</td>
<td>4-6</td>
<td>21</td>
</tr>
<tr>
<td>Italy</td>
<td>8-10</td>
<td>46</td>
</tr>
<tr>
<td>Russia</td>
<td>15-20</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>15-20</td>
<td>63</td>
</tr>
<tr>
<td>Sweden</td>
<td>3-5</td>
<td>21</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4-6</td>
<td>19</td>
</tr>
<tr>
<td>US</td>
<td>40-50</td>
<td>48</td>
</tr>
</tbody>
</table>

*Historical import tariffs*
Vertical inequality

... income inequality has increased since 1980s

Data: 2014

(By M Tracy Hunter - Own work, CC BY-SA 3.0, https://commons.wikimedia.org/w/index.php?curid=33962866)
Horizontal inequality

... between social & geographical groups

<table>
<thead>
<tr>
<th>Country</th>
<th>Gender Equality Index (2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oman</td>
<td>0.70</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.65</td>
</tr>
<tr>
<td>Yemen</td>
<td>0.59</td>
</tr>
</tbody>
</table>
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

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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