



# Editorial

by *Andreas Reinstaller*

The Summer issue of the EAEPE Newsletter is dedicated to the EAEPE Conference that will be held in Istanbul, Turkey. The local organiser of this event is Ahmet Insel from the University of Galatasaray. Together with John Groenewegen they have put together an interesting programme. The newsletter lists all the papers that have been accepted by the scientific committee. The final programme will be made available on the conference web site.

Important communications regard the next EAEPE Conference venue as well as that of the next EAEPE Symposium. This issue of the Newsletter features an interview with one of EAEPE's honorary presidents, Kurt W. Rothschild. I interviewed him about his view of the economics profession and economic teaching. Drawing on his experience spanning six decades as a professional economists Prof. Rothschild raises some interesting points about the past and the future of this science. Another featured

article is the autobiographical note by Prof. Kazimierz Laski. In his long experience as a professional (and heterodox) economist he has lived through many dark sides of the history of the 20th century and experienced the friendship of some outstanding people. Prof. Laski gives a touching account of his experiences.

Finally, Angelo Reati has again reviewed two interesting publications. First, he discusses the three volumes dealing with *Capital Theory* edited by Christopher Bliss, Avi J. Cohen and Geoffrey Harcourt that are published in the *Elgar Reference Collection*. In his second review Angelo takes a critical look at Teodoro Togati's book *The New Economy and Macroeconomic Stability. A neo-modern perspective drawing on complexity approach and Keynesian economics* published with Routledge.

I hope you will enjoy reading this Newsletter.

Andreas Reinstaller, editor

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# Communications by the EAEPE Council

## News from the council

The annual conference of EAEPE is approaching: the organisers are about to finalise the program and the participants (should) get a little bit worried by now about finalising their paper. The first preparations for the 2007 annual conference in Porto, Portugal are already made and the ideas for the 20th anniversary conference in 2008 are floating around.

The first EAEPE Symposium was held 29-30 June 2006; Mikhail Sinjutin did a great job in organising this successful meeting. The EAEPE Symposium is different from the annual conference because it is focussed on a specific theme and holds a much smaller number of participants. The second symposium will be held in Spring 2007 at the Delft University of Technical, the Netherlands on the theme of "Regulation".

The EAEPE members continue to receive the Journal of Institutional Economics (JOIE) for free during 2006. JOIE is experiencing a rapid growth of which we will report in more detail at the membership meeting in Istanbul. On that meeting I will also report about the issues the council has discussed in the spring meeting in Paris and will discuss in Istanbul.

On behalf of the secretariat I wish you all a great summer. Looking forward to meeting you in Istanbul.

John Groenewegen

## Prizes and Competitions

### The Herbert Simon Young Scholar Prize 2006

The Herbert Simon Young Scholar Prize is awarded annually to the best conference paper by a young scholar and will carry an amount of 1000 Euros, funded by EAEPE. The rules for the competition:

1. No applicant shall have reached his or her 35th birthday in the year of the prize award (those who are within 3 years after completion of his or her PhD may also be considered).
2. In the case of co-authored papers, ALL authors must be individually eligible.
3. Applicants must be fully paid-up EAEPE members by 1st September of the year of the competition.
4. All applicants must have the abstract of their paper accepted for the EAEPE Conference and they must upload the electronic version of their paper by the advertised due date for inclusion on the EAEPE web site.
5. Applicants must inform Gráinne Collins, email: collins@tcd.ie, by the 15<sup>th</sup> of October 2006 that

they wish to enter their conference paper for the Herbert Simon Young Scholars Award. Their date of birth should be clearly stated.

6. Applicants must attend and present their paper at the EAEPE Conference for that year.

### 2007 Kapp and Myrdal Prize Competitions

Entries for the 2007 Kapp and Myrdal competitions are now welcome, with a **closing date of 1<sup>st</sup> of January 2007**. Awards of the 2007 prizes will be made at the 2007 EAEPE Conference. It is planned that the Council will judge both prizes by April 2006. The Kapp Foundation will assist in the judging of the Kapp Prize. The EAEPE Council reserves the right not to award a prize if the entries are below the required quality.

#### K. William Kapp Prize

Amount: 2000 Euro (half funded by the William Kapp foundation). Awarded annually for the best article on a theme broadly in accord with the EAEPE Theoretical Perspectives (minimum 5,000, maximum 12,000 words).

#### Gunnar Myrdal Prize

Prize Amount: 2000 Euro (all funded by EAEPE) Awarded annually for the best monograph (i.e. a book, and excluding multi-authored collections of essays) on a theme broadly in accord with the EAEPE Theoretical Perspectives.

#### Submissions for the Kapp and Myrdal prizes

- Five non-returnable copies should be submitted for the Kapp Prize and four non-returnable entries for the Myrdal Prize.
- Submissions for the 2005 Myrdal and Kapp prizes should be either unpublished, or published no earlier than January 1<sup>st</sup> 2005.
- Entries must be received by the EAEPE Prize Competition Co-ordinator by the strict deadline of 1<sup>st</sup> January 2007.
- Entries should be sent to the EAEPE Prize Competition Co-ordinator Gráinne Collins, 17 Celtic Park Avenue, Beaumont Dublin 9, Ireland, collins@tcd.ie. Send your prize entries to Gráinne Collins, and **not** to the EAEPE Secretary General.
- All candidates must be paid-up 2006 members of EAEPE.

- Any member of the EAEPE Council or trustee of the Foundation for European Economic Development serving at any time from 1 January 2006 to 1 July 2007 inclusive shall be ineligible to enter.

## Membership benefits and subscription rates

If you are a 2006 member you will receive the 2006 issues of JOIE (The Journal of Institutional Economics) free of charge as well!<sup>1</sup>

EAEPE offers you furthermore:

- Access to the 'membership only' part of the EAEPE web site.
- A voice at the annual conference (next conference: Istanbul, Turkey, 2006).
- The possibility to promote your research area with access to the EAEPE research area seminars and web site forums.
- The EAEPE Newsletter twice a year. Past issues of the Newsletter can be downloaded from <http://eaepe.org/eaepe.php?q=node/view/43>.
- A reduced price for the EAEPE volumes published in collaboration with Edward Elgar Publishing.
- A reduced subscription rate to journals as the Cambridge Journal of Economics, Industrial and Corporate Change, International Review of Applied Economics, Review of International Political Economy and the Review of Political Economy.

- The possibility to publish a special theme volume in the EAEPE series of Edward Elgar Publishing.

Many reasons to join EAEPE for 2006! The membership fees are as follows:

	Euros	
Life Membership	350	
Three year ordinary membership	200	
Ordinary rate (gross income > 45000 Euros p.a.)	70	p.a.
Reduced rate (25000 < gross income < 45000 Euros p.a.)	40	p.a.
Special rate (gross income < 25000 Euros p.a.)	20	p.a.

To **renew** your **membership** or to **join up**, download the membership forms and the classification of the areas of expertise from the EAEPE web site at <http://eaepe.org/eaepe.php?q=node/view/87&PHPSESSID=9b64c695511be5c8d95d7a03b3c8741e>. Fill in and then fax the form back to Albert Jolink, fax: +31 10 408 96 38. Payments may be made by MasterCard/Visa/Eurocard. For further information please contact: Albert Jolink, [ajolink@rsm.nl](mailto:ajolink@rsm.nl).

## Scientific development plan

Details on the scientific development plan of each research area are published on the web site under the following URL <http://eaepe.org/eaepe.php?q=node/view/19>. The complete list of research area coordinators (RACs) is listed on <http://eaepe.org/eaepe.php?q=node/view/7>. Please consult these links for more information.

<sup>1</sup>The subscription to JOIE for other individuals in 2006 will be 32€/49.00US\$.

# The EAEPE 2006 Conference Programme: November 2-4, Galatasaray University, Istanbul, Turkey

This year's conference programme is organised by Ahmet Insel and John Groenewegen. Ahmet Insel is also the local organiser. Please contact him for any inquiries on the conference or the programme (eaepe2006@gmail.com).

## Thursday, November 2, 2006

### Pre-Conference Meetings

10:00 - 12:00 FEED-Meeting

12:00 - 14:00 JOIE Editorial Board Meeting

14:00 - 18:00 Council-Meeting

### Registration

18:00 - 20:00 Registration / Conference Office (*Hall of Auditorium*)

19:00 - open end Get-together / Reception (*University Hall*);

## Friday, November 3, 2006

09:00 - 19:00 Registration / Conference Office (*Hall of Auditorium*)

### Opening and Plenary Session I

09:00 - 09:15 Opening and Welcome: Pascal Petit, EAEPE President, and Seyfettin Gürsel, Vice-President of Galatasaray University

09:15 - 09:45 Guest Address: Fikret Senses (to be confirmed), Middle East Technical University, Ankara

09:45 - 10:30 Plenary Session I: Keynote by Ha-Joon Chang, Cambridge University, UK

10:30 - 10:45 Tea- / Coffee-Break

### Sessions & Workshops

10:45 - 12:45 Events:

- Parallel Sessions
- Guest Sessions
- Job Market

12:45 - 14:00 Lunch-Break

14:00 - 16:00 Events:

- Parallel Sessions
- Guest Sessions
- Job Market

16:00 - 16:15 Tea- / Coffee-Break

16:15 - 18:15 Events:

- Parallel Sessions
- Guest Sessions
- Job-Market

### Membership meeting

18:30 - 19:30 Membership Meeting (*Auditorium*)

## Saturday, November 4, 2006

09:00 - 17:00 Registration / Conference Office (*Hall of Auditorium*)

### Sessions & Workshops

09:00 - 11:00 Events:

- Parallel Sessions
- Guest Sessions
- RA-Meetings 1

11:00 - 11:15 Tea- / Coffee-Break

11:15 - 13:15 Events:

- Parallel Sessions
- Guest Sessions
- RA-Meetings 2

13:15 - 14:30 Lunch-Break

14:30 - 16:30 Events:

- Parallel Sessions
- Guest Sessions
- RA-Meetings 3

16:30 - 16:45 Tea- / Coffee-Break

## Plenary Session II and Conference Dinner

**16:45 - 17:45** Plenary Session II: Keynote by Timur Kuran, University of Southern California Los Angeles

**19:30 - 23:30** Conference-Dinner and Excursion on the Bosphorus

## List of accepted papers

The programme and the overview over the sessions will be available in the beginning of September 2006. The list of accepted and reserved papers as well as additional information on the conference, the venue, travel arrangements and the host institution is available at the EAEPE web site under <http://eaepe.gsu.edu.tr>.

- Abreu, A/ *Microcredit in Portugal: the role of multiscalar network spaces in the diffusion of social innovation*
- Adaman, F / Bugra, A / Insel, A/ *Determinants of trade-union attitudes toward segmented labor market: the case of Turkey*
- Agir, S / Ozcelik, E/ *Re-considering Development Economics in the Age of Global Governance: An Institutional World-Systems Analysis*
- Akarçay-Gürbüz, A/ *A comparative study of per capita GDP, sectoral production shares, trade and investment (1965-2000)*
- Akıncılar, T / Altay, S.A/ *Rethinking the Post-Washington Consensus through Independent Regulatory Agencies: the case of Turkey*
- Alacevcih, M / Sunna, C/ *The Keynesian Legacy in Development Economics*
- Alvarez, I / Magana, G/ *ICT and cross-country comparatives. Some measurement issues*
- Alvarez, I / Martin, R/ *The role of FDI in the national systems of developing countries*
- André, I / Rego, P/ *Innovation in post-mining landscapes. Case studies in Alentejo and Andalusia*
- Angelini, E.C / Farina, F / Pianta, M/ *Innovation, demand and wage inequality in European industries*
- Aschutz, E/ *Power, Inequality and Distributive Justice*
- Aydinonat, E/ *The Origin of Money: Do we know any better than Menger?*
- Aysan, A.F/ *The Shadowing Role of Redistributive Institutions in the Relationship Between Income Inequality and Redistribution*
- Aysan, A.F / Nabli, M.K / Véganzonès – Varoudakis, M.A/ *Governance and Private Investment in the Middle East and North Africa*
- Bateira, J/ *What are institutions? A Naturalist approach*
- Battistini, A/ *A Theory of the Role of Inter-Group Relationships in Institutional Analysis*
- Baum, J/ *“Vertical Market Power” in a Systemic Concept of Market Power*
- Bellon, B / Youssef, A.B / M’Henni, H/ *A model of capacities of use information and communication technologies*
- Berkis, U/ *Convergence vs. sustainable diversity: expected and unexpected in the transition of formerly centralised economies*
- Bertrand, E/ *What do cattle and bees tell us about the Coase theorem?*
- Bilgin, M/ *Multiple Trajectories and Localities for single Sustainability*
- Blaas, W / Onaran, Ö/ *EU: stabilizing or destabilizing emerging markets?*
- Bonaventura, L / Consoli, A / Richiardi, M / Spagano, S/ *The political regulation of the Sicilian labour market*
- Bottazzi, G / Coad, A / Jacoby, N / Secchi, A/ *Corporate Growth and Industrial Dynamics: Evidence from French Manufacturing*
- Bottazzi, G / Jacoby, N / Koksal, N.E/ Secchi, A/ *Employment Dynamics in the Turkish Manufacturing Industry*
- Bottazzi, G / Secchi, A/ Tamagni, F/ *Linking financial fragility and economic performance: an investigation into the dynamics of Italian business firms*
- Branco, M/ *The Political Economy of Democratic Governance and Economic Development*
- Buzaglo, J / Calzadilla, A/ *Towards a New Consensus. Poverty Reduction Strategies for Bolivia*
- Çağlayan, E / Erdoğan, M/ *Exchange Rate Dynamics and Equilibrium: An Econometric Analysis for the Turkish Lira*
- Cameron, J/ *Constructing and deconstructing a globalised labour market: a case study of the political economy of the United Arab Emirates*
- Canpolat, N / Özel, H/ *Foucault’s Pendulum? Evolutionary Dynamics of the Globalization Process*
- Caserta, M et all./ *Intra-regional trade barriers and economic development: the case of Sicily*

- Cazenave, M.C / Zajdela, H/ *Discussing the British welfare and employment system*
- Cefis, E / Marsili, O/ *Innovation and modes of exit*
- Chavance, B/ *Ambivalence of the institutional turn in economics: The case of transition economics*
- Checchi, D/ *Endogeneity of union density and labour market performance*
- Christoforou, A/ *A Theoretical and Empirical Assessment of Development in European Countries: The Role of Social Capital*
- Ciarli, T / Leoncini, R / Montresor, S / Valente, M/ *The organisation of industry in a modular world: some insights from a pseudo-NK model*
- Ciarli, T / Parto, S / Arora, S/ *Economic Growth, Innovation Systems, and Institutional Change: An Assessment and a Framework*
- Consoli, A / Spagano, S/ *Law and Institutions: two reasons for Sicilian backwardness?*
- Constantelou, A/ *The design of policies for the telecommunications sector in Southern and Eastern Europe: A political economy of policy evolution in Greece and Hungary*
- Conte, A / Grimalda, G / Vivarelli, M/ *Technology transfer and within country income inequality in developing countries*
- Cumbers, A / McMaster, R/ *Socialism, Instrumental value and public Ownershi*
- Dannreuther, C / Petit, P/ *Post national modes of regulation: the importance of economic rights: the case of access to credit by developing countries*
- Davidsen, B.I/ *Critical realism as economic methodology*
- Deblock, C/ *New Regionalism, Hybrid Arrangements and Developing Countries*
- Denis, A/ *Methodological individualism: orthodox and heterodox views*
- Dinh, T.T / Dupuch, S / Mouhoud, E.M/ *Regional Integration and Catching-up countries: what lessons from the EU experience for Asian countries*
- Dixon, W / Wilson, D/ *Relating self-interest to moral conduct : a recurring problem of economic thought.*
- Dolfsma, W.A / Kessler, O/ *Time is on my side... Evolutionary Economics, Time, and Causality*
- Dosi, G/ *Statistical Regularities in the Evolution of Industry: A Guide through some Evidence and Challenges for the Theory*
- Dopfer, K/ *Meso: Connecting Quantity and Quality*
- Dow, S.C/ *A Stages Approach to Banking Development in Transition Economies*
- Driver, C / Temple, P/ *What's wrong the textbook account of investment? Evidence from Hurdle Rates*
- D uppe, T/ *The character of economists between relevance and science Or Gerard Debreu between Adam Smith and Nicolas Bourbaki*
- Duwicquet, V / Mazier, J/ *Financial integration and macroeconomic adjustment in a Monetary Union*
- Eerma, D/ *Market Entry Regulation via Licensing in Estonia*
- Egorov, I/ *Transformation of R&D and innovation systems in the post-Soviet states*
- Ekstedt, H/ *Some Comments on the Concept of Rationality*
- Ennuste,  / *Dual Market-Transition in Estonia 1987-2006: Institutional Mechanism Analysis Approach*
- Fadda, S/ *Economic Development and Institutional Change: Towards a new Frame for Analytical and Policy Purposes*
- Festr e, A / Garrouste, P/ *The actuality and implications of Schumpeter's conception of rationality*
- Frangakis, M/ *Financial Deregulation, Macroeconomic Developments and Social Inclusion The Case of Greece*
- Franzini, M / Raitano, M / Supino, S/ *Market income inequality and redistribution: the effectiveness of alternative Welfare State policies*
- Fusari, A/ *Interest Rate, Finance Capital and the International Economic Order*
- Gabor, D/ *Monetary Policy in Romania. Changing the rethoric but not the practice*
- Gaffard, J.L / Saraceno, F/ *How to gain from relocation in a global economy: wage flexibility or active macroeconomic policy?*
- Garcez, C.A/ *Spatial Dimension of Knowledge in Developing Economy – a System of Innovation Approach in a Globalized Sector*
- Gassler, R.S/ *The Political and Social Economics of EU Enlargement:*

- Giannini, M / *National vs local funding for education: implications for efficiency and equity*
- Goldschmidt / J. Zweynert/ *The Relation between Path-Dependent and Politically Implemented Institutional Change*
- Goldstein, D / Hilliard, R/ *How firm are firm routines? Investigating the balance between persistence and change*
- Gomez, G.M/ *Self-organisation of markets for development and poverty alleviation: The Argentine Red de Trueque*
- Gorcheva, T/ *Interaction between Target Groups and Personnel Management Tools*
- Graz, J.C / Damian, M / Abbas, M/ *Sustainable development and transnational asymmetric regulation*
- Grimaldi, G / Musumeci, M/ *Immigrant entrepreneurs and the development of the productive system in Sicily*
- Gültekin-Karakas, D/ *Rising Concentration and Centralization of Banking Capital in Turkey*
- Hamdouch, A/ *The structural weakness of R&D and Innovation in developing Countries: An Institutional-Evolutionary approach*
- Hanappi, H/ *Endogenous Needs, Values and Technology Evolutionary economic modelling to replace microeconomics and macroeconomics*
- Hanappi-Egger, E/ *On the Reproduction of Societal Gender Relations in Technological Artefacts*
- Hands, D.W/ *Economics, psychology, and the history of demand theory*
- Hanel, P / Niosi, J/ *Evolutionary theories of technological diffusion and development*
- Hansen, F/ *The different relations of behavioral and experimental economics to the discipline of psychology*
- Hardy, J/ *Combined and uneven development and the contested nature of capitalism's institutional architecture: the case of Poland's transforming economy*
- Hardy, J / Ye, Z / Jiang, S/ *Corruption, institutional thickness and regional development: the case of Xiamen, China*
- Hazakis, K/ *Managing the dynamics of technological creativity and innovation: An analysis of the experience of East Asian countries*
- Hermann, A/ *The Role of Policy Co-ordination in Public Utilities Regulation and in Other Structural Problems*
- Hermele, K / Hollander, E/ *Sustainability accounting innovations as tools to open new fields of enquiry*
- Herrera, R / Köksal, R.E/ *The Employment Axis of Turkey's European Union Adhesion Perspectives: challenges for a developing economy*
- Himmelweit, S/ *Evolutionary Economics and Feminism*
- Hirsch, C/ *Exploring the limits of interdisciplinary integration: Some evidence from New Institutional Economics*
- Hocker, G / Elsner, W/ *'Hub&Spoke' and 'Open Source' Types Compared Two Cornerstones in a Multidimensional Space. The Cases DaimlerChrysler and Linux*
- Hodgson, G/ *The Economics of Corruption and the Corruption of Economics: An Institutionalist Perspective*
- Hodgson, R/ *Democracy and Growth: Does the past matter?*
- Hofer, R/ *Research and Technology Organisations (RTOs) – Their roles and adaptation against changes in innovation systems*
- Hölzl, W / Leisch R/ *Was there a Marxian bias in Austrian manufacturing? Evidence on the direction of technical change*
- Hollander, E/ *Introducing demand shaping as a mirror process to the innovation process*
- Houbenova-Delisivkova, T/ *The Institutional Changes under the Financial Sectors' Reforms and the Variety of Paths to the European integration of the South East European Countries*
- Howells, P.G.A/ *Monetary Policy Pitfalls for the Accession Countries*
- Huang, C/ *Transition in Taiwan's financial sector after the 1980s*
- Ialnazov / *The Impact of EU Accession on Corporate Governance: Evidence from Bulgaria*
- Iguaran, C.S/ *Quasi-markets and social services delivery: an assessment of health system reform in Colombia*
- Ilkcaracan, I / Levent, H/ *The Role of Labor Market Institutions in Management of Economic Crises: The Case of Collective Bargaining and Wage Setting in Turkey*
- İnal, V/ *Turkish Development and the National Innovation System of Turkey*
- Ioannides, S/ *Entrepreneurship and Corporate Ownership: An Austrian View*

- Iyidogan, S/ *Pattern of software industry's evolution in Turkey: implications on industrial and technology policies issues*
- Janssens, W/ *Dynamics of Trust, Reciprocity and Collective Action: Evidence from a Women's Empowerment Programme in Rural India*
- Jessop, B/ *Cultural Political Economy: Making the Cultural Turn Productive in Economics*
- Jessop, B/ *The Paradox of Success and Failure Revisited: the RA after 30 Years*
- Jolink, A / Niesten, E/ *Knowledge Externalities and Growth in Peripheral Regions*
- de Jong, M / Stout, H/ *Institutional Transformation for network-bound industries in the Netherlands*
- Jorma, S / Ari, J / Kalevi, K/ *Methodological individualism: in strategic management*
- Kapás, J / Czeglédi, P/ *A Techno-economic Paradigm Perspective on Transition*
- Kessler, O/ *Regulation, Social Differentiation and Macroeconomic Governance*
- Khalil, E.L/ *Making sense of Behavioural Anomalies*
- Kim, J / Jun, Y / Kim, H/ *A Study on the technology innovation capability of university and government funding research institution in Korea*
- Kunneke, R/ *The governance of network industries: Innovations, investments and public interests in the electricity sector*
- Kuorikoski, J/ *Explanatory unification and the concepts of mechanism*
- Lascaux, A/ *On the Problem of Institutional Support for Trust*
- Lawson, C/ *Ayres Technology and Technical Objects*
- Lazaric, N / Raybaut, A/ *Knowledge, hierarchy and Incentives: Why human resource policy and trust matter?*
- Lehtinen, A/ *The imperial success of economics explained in terms of its normative success*
- Liagouras, G / Zambarloukos, S / Constantelou, A/ *When blueprints are not of big help: Impasses and challenges of technology policy in an intermediate economy (Greece)*
- Lissowska, M / Maria, L/ *Northian mechanisms of institutional evolution and the labour-governing rules in Poland*
- Luksha, P/ *Men influencing men: behavioural foundations for niche construction by the firm*
- Luksha, P/ *Niches in Biology and Evolutionary Economics*
- Magnin, E/ *National Transformation Trajectories of Welfare and Tax Systems in the New EU Members States (1989-2004) : The Road to Anglo-Saxon Capitalism*
- Maître D'Hôtel, E / Bosc, P.M/ *Path-dependent explanation of institutional change: Insights from an empirical work on the political making process in Costa Rica*
- Makasheva, N / Jakobson/ *The 'soft' social commitments: the path-dependency of the public sector development in Russia*
- Mäki, U/ *Forms and terms of interdisciplinary relations*
- Marchionni, C / Oinas, P/ *What explains what? Comparing explanations of spatial clustering*
- Maseland, R / de Vaal, A/ *The Debate about International Trade—a small step towards one*
- Mathivet, B/ *Institutional Trap within the Reform Process of the Russian Healthcare System*
- Mathur, S.K/ *Global Economic Trends and South Asia*
- Matrizajev, B/ *Evolution of monetary policy in Eastern Europe and Transition Economies: Comparative analysis and evaluation of prospects*
- Mehmood, A/ *Small island development: An 'islescape' of socioeconomic development and socio-cultural dynamics*
- Menard, C/ *Mode of Governance of Core Transactions in Critical Infrastructures*
- Mendelski, M/ *Latin and Orthodox development trajectories*
- Meramveliotakis, G / Milonakis, D/ *Constructing a Property Rights Theory: A Critical Assessment*
- Mireles-Flores, L/ *The art of economics: An interdisciplinary endeavour*
- Miozzo, M / Grimshaw, D/ *Service multinationals and linkages with client firms: IT outsourcing in Argentina and Brazil*
- Mohun, S/ *Marxian-inspired approaches to empirical macroeconomics*
- Molero, J/ *Technology, multinational corporations and the impact on National Innovation Systems*



- Monasso, T / van Leijden, F/ *Get the governance right, Regulatory Effectiveness on rural telecommunications in South Africa*
- Mouhoud, E.M / Oudinet, J / Unan, E/ *Migrations, remittances, and convergence: the case of Turkey*
- Mouhoud, E.M / Plihon, D/ *The financial system reform in Algeria : how to tackle the Dutch Disease*
- Moulaert, F/ *Linking Agency, Structure, Institutions, Discourse – ASID -*
- de Muro, P / Monni, S / Tridico, P/ *Development theories, economic policies and institutions: a dialectical evolution*
- Neves, V / Reis, J/ *Why there isn't an institutional theory of the State?*
- Nicita, A / Vannini, R/ *tba*
- Nielsen, K/ *Original and New Institutional Economics – a stylized comparison of core presupposition*
- Nosova, O.V / Nosova, O/ *Trajectories of Institutional Corporate Governance System development in Ukraine*
- Nureev, R/ *Power-property as parth-dependence problem: Russian case*
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- Özkaya, A/ *The effects of Competition on Innovation and Growth: A growth model for emerging markets*
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## Economics past and present: An interview with Kurt W. Rothschild

conducted by *Andreas Reinstaller and Joachim Becker*

**Question:** Prof. Rothschild<sup>1</sup>, thank you very much for giving us this interview. To start I'd like to ask you about John Kenneth Galbraith who has passed away recently. He was a leading critical mind in economics. What do you think was his importance for economics and what do you think will be his legacy?

**K.W. Rothschild:** I think one of the great qualities of Galbraith was that, he decided at a very early stage that a wider view of economics was needed. He knew economic theory at least as well as any other Harvard economist but he emphasised that economic problems are not devoid of political and social elements and that as a consequence economic analysis should take into account these elements. He also recognized the importance of communicating economic problems and possible solutions in a way to be intelligible at least to every intelligent person. In this way he believed economics and economists could influence political outcomes. He was able to do this because he had accumulated also experiences outside academics by working in politics. He was an U.S. Ambassador in India under Kennedy and he was Kennedy's speech writer and so forth. So he had the rare quality to know economic theory well but to keep in touch with reality all the time, too. So, I believe, he will be missed because there are few who can do that.

**Question:** If we look at some statements that other very famous theoretical economists made, there seems to be a general bad feeling about the path economics has taken. For instance, Mark Blaug has said that modern economics is sick, that modern economics is becoming an intellectual game played for its own sake. Ronald Coase, on the other hand has stated that economics has become a theoretical system that floats in the air but has very little relation to what happens in the real world. Finally, Joseph Stiglitz has said about how economics is taught at U.S. graduate schools that this is a testimony for the

triumph of ideology over science. What do you make of these statements?

**K.W. Rothschild:** Generally I would agree. I think that a critical view of economics is missing. This is not necessarily true for neoclassical theory as such, but for the way it is used to keep other approaches out of the economics profession. I also think that the way in which it is applied directly to practical affairs is – given its very strict assumptions – illegitimate. Sometimes it is also presented in its 'vulgar' form just to exploit it for certain ideological and political purposes. The economy and the social system in general that comprise of course also politics and social factors and institutions are such a complex phenomena that you can't expect one single theory to provide a sufficient basis for studying it. So, economics like sociology is necessarily a multi-paradigmatic science. We need several theories to study these complex circumstances. Of course, every theory must be rather abstract as otherwise it can't be used as an analytical tool. But even if we have several such abstract theories none will be able to capture all the relevant features of a social system. So, it is not possible in economics to develop general theories as in the natural sciences. We need to study and to draw on many theories, including past ones. We are all in great debt to Adam Smith, and what he has written is relevant to a certain extent even for us today. This we should not forget. So, the bitter remarks on economics which you mentioned before are really to be understood as a sharp protest against the way in which mainstream economics has been monopolized by general equilibrium theory.

**Question:** What is different about how economists think and do research nowadays if you compare it to the Keynesian Revolution, which you had occasion to experience in the late 1930s and the 1940s in the UK?

**K.W. Rothschild:** The situation has changed very much because mainstream economics has become

<sup>1</sup>Kurt W. Rothschild, born in 1914, has studied law at the University of Vienna, and economics in at the University of Glasgow in Scotland. Between 1947 and 1966 he was a senior researcher at the Austrian Economic Research Institute (WIFO), for which he still works as a consultant. From 1966 to 1985 he was a full professor of economics at the University of Linz. He was the rector of this university between 1971 and 1972. He is one of the honorary presidents of EAEPE.

such a specific and generally established discipline. As a consequence it has also become very specialized. The main difference is that before the Second World War most economists could have an idea what was going on in most of the different fields of economics. So, the research was not so narrowly focused and dealt with questions of a more general character. The methods were not so much based on mathematics and economics was more a form of logical discourse.

There were of course advantages and disadvantages compared with today. In the old times an editor of a journal could judge whether an article was good or bad. Of course, he couldn't verify all the time whether somebody had plagiarised the piece, but this is also difficult today. There was no referee system and as a consequence articles sometimes contained mistakes and comments and replies followed suit to discuss the problems. But the whole discussion was on a level that most economists could understand and because of these discussions one could see that there were many interesting questions and many interesting answers. I can give you an example on how it worked in the past from my own experience. I sent my first article, a short note, to the *Economic Journal*.<sup>2</sup> I must add that there weren't many journals at the time, there were no core journals and other journals, there were just journals. Two days later I got a postcard from Keynes stating that he liked it and that he would print it. Unbelievable for today! He didn't know me of course; I was just a little lecturer in far away Glasgow. Nowadays, this is different. A single person can't judge the scientific value of most articles any longer. So, you need a referee system with all its problems. So, to sum up, the difference to how research is done today, is that it has perhaps become too narrow, too specialized, too technical, and that some of the interdisciplinary considerations, which are important, are neglected.

**Question:** So could one say that economics was more open to the public and that it was more part of the political discourse and other intellectual debates than it is today?

**K.W. Rothschild:** Yes, this is certainly the case.

**Question:** So this leads us to the demands of the students of the Post-Autistic movement. In the year 2000 French students have issued a petition raising the problem that there was a lack of pluralism in the teaching of economics in the sense that non-mainstream theories and schools of thought are excluded from most curricula. In principle the issue they raised were very much in line with what you

said before. They claimed that there is a need for plurality in economics. This went so far that important mainstream economists like Blanchard and Solow felt compelled to argue against the students. Now, I would like to connect this with what I've heard from former student of yours. They maintain that while you were very well-known as a critical mind arguing mostly from a Keynesian or Post-Keynesian standpoint in your teaching and in examining students you were very strict that people should know mainstream theory. Is it true, and if so, what was your philosophy behind this?

**K.W. Rothschild:** There are two issues here. First, I taught mainstream economics because I think that neoclassical theories, like other theories, are an essential part of economic knowledge. One should know these things. Even if one does not like them one should know them because for some problems it is a very useful theory. Second, it was Joan Robinson who said that you should learn neoclassical economics because only then you can show what its mistakes are. But this is only of secondary importance. Of course, I can be attacked somehow that I spent too much time on these theories. During my tenure at the University of Linz we probably committed also the mistake of other universities to neglect the study of the history of economic thought.

Nevertheless, as I said before, the bitter attacks against the economic mainstream you mentioned before were not so much directed against neoclassical theory as such, but against the way it is used to monopolize the discipline. Just look at the publishing policies of large mainstream journals. They prefer to publish papers which are based on mainstream methods. Then you have very good journals that don't follow that policy and they are mostly considered and classified as being of secondary importance at best. Actually, Galbraith is another good example in case. In the profession he has always been regarded more as a freak and not so much as the good economist he was, just because he didn't always use the methods which are taught by the mainstream and refused to talk and write in the established academic fashion.

The French students touched here obviously an important point because, as you said, some very famous economists joined the debate. They wouldn't have done that otherwise. But even within the defenders of the mainstream there are differences as well. Take Solow for instance. He joined the debate with the intent to defend neoclassical theory, but at the same time he has written the famous book with Frank Hahn, where he heavily criticized its use in modern macroeconomics.<sup>3</sup> So, he obviously wants to preserve the neoclassical method, but he opposes its sometimes unwarranted use, and I would agree with

<sup>2</sup>K.W.Rothschild (1942). A note on advertising. *Economic Journal* 52, 112-121.

<sup>3</sup>Hahn, F., Solow, R. (1995). *A critical essay on modern macroeconomic theory*. Oxford, Blackwell Publ.

him on that. The French students were quite fair I must say. They didn't say neoclassical or more generally mainstream economics should be abolished altogether; they said that they wanted it to be part of a wider, pluralistic view. I think that this is a sensible proposition. I don't necessarily include Marxist theory which probably would be to expect too much, even though it should be part of such a wider view. If you consider that lately even the Financial Times Germany has come to recognize Marx' analysis of economic development and the development of monopoly, then this request of mine is probably not too far fetched.

**Question:** I didn't know that the Financial Times has started using Marxian theory for its analyses. I fancy the idea that it was probably Groucho Marx they had in mind. Let me refer to your recently published book "Die politischen Visionen grosser Ökonomen" (The political visions of great economists).<sup>4</sup> I read its introductory chapter as a plea for a revival of political economy in economic research, economic thinking and teaching. You quote Schumpeter's seminal *History of Economic Ideas* where he ranked the study of history before the use of statistics (or econometrics nowadays), before theory as a way to develop economics and study the economy. Is this a possible alternative programme to what we are confronted with today, where the ranking goes exactly the opposite direction? To use Schumpeter's terminology, what do you think would be an appropriate box of tools a modern, young critical economist needs?

**K.W. Rothschild:** You know that I'm no longer in the teaching business for quite some time now. But I would say that there is no need to give general prescriptions on how economics should be taught. It could be just different from place to place. Ideally students would go to universities where the curriculum stresses certain points they are interested in. To a certain extent you have that already with departments specialising in business economics and others being focused more on theoretical economics. Around the beginning of the last century if you wanted to study the best of theoretical economics there were just a handful of places to go. There was Stockholm, there was Cambridge, there was Vienna and there was Chicago. The problem nowadays is that we have such a uniform teaching. The text books look more or less all the same and other things are neglected. So teaching could be and should give an overview of several theories but then each university could concentrate on its own focus.

**Question:** Do you think it is possible to pursue a programme of teaching and research that puts its

emphasis on scope and the grand view rather than a narrow specialization and relatively minute technicalities?

**K.W. Rothschild:** I don't think you can have an overarching theory. The old idea was of course that you study first micro and macro theory and then you are an economist and you can specialize. I would still think that of course such introductory lectures are important but they should be supplemented with the study of the history of economic theory. The problem is not so much whether the basic lectures should be abolished, but the lectures should show at a very early stage that the theories are very much simplified pictures of reality and that you can have several such pictures. Students should be given some idea what the practical problems are and what the value of these theories is to deal with them.

**Question:** To which extent do you think does the organisation of economics and of the academic disciplines and the predominance of the mainstream affects its political relevance? It seems economics has forgotten the lessons of the 1920s and 1930s, as well as the ideas that were developed to solve them. Is this the reasons why we commit the same policy mistakes today? For example in Germany economic policy has developed and follows prescriptions which are quite similar to the catastrophic policies of the 1930s. To which extent does academic economics affect economic policy? How did this happen and how do you think could that be corrected?

**K.W. Rothschild:** You see, when the economic crisis of the 1930s happened mainstream economics of the time - I wouldn't call it neoclassical though - was so obviously wrong. During the crisis of the 1930s in Germany for instance prices and wages were reduced by law. The idea was that if everything was cheaper then the economy would recover. The following anecdote captures the state of economics at the time as well: At a seminar at the LSE in the midst of the depression Hayek stated that consumption was harmful to long-term investment. He based this on Böhm-Bawerk's capital theory. So, Kaldor raised and asked Hayek whether he really thought that if he would buy a winter coat today he would harm the economy. Hayek flatly replied that this was what he thought. I hope this anecdote is true, but I can't guarantee it. Nevertheless, it gives a good idea about the obvious failure of economists to come to terms with the reality of depression. The way countries tried to get out of this depression was completely wrong. Economists just had no suitable macroeconomic theory. They didn't see the macroeconomic relationships. Only after some time Keynes, Kalecki and Föhl (in Germany) realized that another

<sup>4</sup>Kurt W. Rothschild (2004). *Die politischen Visionen grosser Ökonomen*. Bern: Stämpfli, 218pp., ISBN: 3-7272-9641-0.

access to the problem was needed. As a consequence Keynesian theory developed and found its way into textbooks in the forties and fifties and the teaching of Keynesian theories became quite dominant. This was the new mainstream of the time. So, why is it then that general equilibrium theory is fashionable again? Partly, this has to do with the fact that the profession relied too much on one theory that did no longer apply fully as things changed. This was not so much true for Keynes as for Keynesian theory. Keynes had really two theories: one for the economy in depression and one under the state of full employment. But he did not bother about the latter and the Keynesians thought that Keynes' General Theory could be applied all time. This led to difficulties, especially when unemployment and inflation rose together in the 1970s. This was the big time for the Chicago people who had never liked Keynes anyway. They started to reintroduce microeconomic explanations for macroeconomic problems jointly with a vision of a perfectly working market. They allowed for frictions, fair enough, but eventually, they established that we live in a Panglossian state, i.e. in the best of all worlds. There are no options available. If you have this picture, then the free market is ideal. Therefore, this new macroeconomic theory was an ideal ideological foundation for all people who are

benefiting from a free, i.e. unregulated, market. It spread from Chicago into the big U.S. think tanks like the Cowles Commission and from there it fed back into university research and became the mainstream. But the moment such a theory is accepted as mainstream and taught to students, you have an enormous investment in human capital which most people of course do not want to loose. An American paper recently reported that now economics students spend too much time to learn mathematics and have no time to learn economics any longer. I think that's not quite true but certainly partly true. And once you have a fairly developed theory, then you always see the reality through these glasses. From this then spring the difficulties to develop new approaches to economic policy.

**Question:** So it leads us directly to the last question: in your view, what can save economics or what can make it more relevant? Or to put it in a slightly more provocative way: does economics need to be saved by heterodox economists?

**K.W. Rothschild:** Yes, I think what you are doing and in doing this interview helps to change things little by little.

## ICAPE

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There presently exists a number of societies and associations of economists and other social scientists, all of which are united by their concern about the theoretical and practical limitations of neoclassical economics. In addition, they share the conviction that the current dominance of the subject by mainstream economics threatens academic freedom and is contrary to the norm of methodological pluralism. Furthermore, this dominance is highly detrimental to scientific creativity and debate, and to the de-

velopment of realistic, innovative, and useful economic analysis and relevant policies. There is a need for greater diversity in theory and method in economic science. A new spirit of pluralism will foster a more critical and constructive conversation among practitioners of different approaches. Such pluralism will strengthen standards of scientific inquiry in the crucible of competitive exchange. The new pluralism should be reflected in scientific debate, in scholarly conferences, in professional journals, and in the training and hiring of economists. and other studies of economic behavior. Contact Information: John T. Harvey, Department of Economics, Box 298510, Texas Christian University, Fort Worth, TX 76129, USA (817)257-7230 office, (817)924-9016 home, j.harvey@home.net

# Intellectual trajectories

## Kalecki's place in my career as economist

by Kazimierz Laski<sup>1</sup>

My professional life consists of two distinct periods and the border line between them is linked with the definitive return of the Kaleckis to Poland in 1955. Before being confronted with his teaching I was a rather dogmatic Marxist, much more a priest of the 'new religion' than a scientist. Only after having met Kalecki I have become increasingly more a critical and professional economist. The privilege to work with him was a great chance offered by destiny which otherwise was not very kind to me.

'Karl Marx' Economic Teaching' by Karl Kautsky was my first confrontation with political economy. This book opened my eyes not only for the history of mankind and its present complexities, but for its predetermined future as well. The study of the first volume of Marx's 'Capital' did not produce the same emotions. The distinction between the value of labour force as a commodity and its alleged exclusive ability to produce value added seemed quite convincing as a tool to disclose the nature of capitalist exploitation, but rather quickly I got lost in the German philosophy inclination to distinguishing between the form and the essence of exchange values. It is rather strange that the discussions on Marxian economics in the past decades have been dominated by the labour theory of value, and especially by the so called transformation problem (from labour values into prices of production) until Sraffa (1960) proved that the transformation in a form proposed by Marx is not a scientific question at all. The scheme of reproduction presented by Marx in the second volume of 'Capital' has impressed me much more than his labour theory of value. This scheme, with the circular flows of production and incomes in the background, brought Marx very close to what about seventy year later became known as the theory of effective demand. However Marx got involved in the speculation about the rising organic composition of capital (what he had really meant – as rightly pointed out by Steindl (1952) – was rather the capital/labour and capital/output respective ratios), and the resulting long run fall of the profit rate, which made many of his followers attempt in vain to calculate the date at which the whole system would break down.

In the early 1950s the Communist Party established in Warsaw the Institute of Social Sciences, a hotbed for training Marxist teachers in the Polish universities which with time became in fact a hotbed for revisionists, but this is another story. I was admitted to the Institute as a postgraduate student and

could devote all my time to research and reading, mostly of the 'Holy Scriptures'. After finishing my doctoral thesis I continued work at the Institute and, simultaneously, at the Central School of Planning and Statistics (SGPiS). where I have been an assistant already since 1949 and, after defending my doctoral thesis I quickly got a position of assistant professor, and then of a professor. The tight ideological limitations made my work more and more difficult. The other source of my disappointment was the growing dissonance between the official ideology and the praxis of 'real socialism'. The thaw after Stalin's death was well underway and the social revolt in Poznan, and then in Hungary, were approaching. I was ripe to leave the line of stout believers, as were many of my colleagues and especially our influential teacher Wlodzimierz Brus. It was his initiative to invite Michal Kalecki, who has just returned for good to Poland, to give in November 1955 two lectures on "The impact of militarisation on the business cycle after the Second World War" (Kalecki (1955)). I knew his name from reading, but since in the Manichaeic world of finely drawn divisions between Marxian and bourgeois economics he was not considered a Marxist, I classified him accordingly and was rather sceptical towards the expected benefits of his lectures.

It is difficult to describe the first impression Kalecki's lecture made upon me. I saw in front of me a man of a rather small stature, who spoke in a loud voice, but intellectually a kind of sorcerer who played with the familiar schemes of reproduction but used them for asking the most important and pertinent economic questions to arrive at conclusions that were completely opposed to the canons of the 'Marxian faith'. One of them was that inflation was bad, especially for workers, and a balanced budget was good. This was exemplified by his analysis of the effects of militarisation, which according to the ruling ideology at the time was the main determinant of the successful development of capitalist countries. Kalecki did not deny at all the expansive role of militarisation expenditures but showed that their consequences for the capitalist economy depended on the method of their financing. The balanced budget per se – he argued – was neither good nor bad for the economy because the final result depended much on how this balance is brought about. If militarisation expenditures were fully financed by taxes paid by workers alone, then more cannons and less butter would be produced without any change in total output and employment. If, how-

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ever, the increase in armament expenditures was financed solely by increased profit taxation, profit after taxation would not change while total output and employment would increase. In that case not only more cannons but also more butter would be produced. However, such a policy would hardly be politically acceptable. Finally, in case increased armament expenditures were financed by deficit spending (which – except under hyperinflation – would not give rise to inflationary pressure), not only total output and employment would increase, but also total profits, which would, in turn, in due time lead to an increase in investment and capitalist consumption, and thus to further economic expansion.

I was amazed. Kalecki's logic was flawless, but it must not be true what should not be true (*es darf nicht wahr sein was nicht wahr sein darf*). I looked for the trick and believed for a while to have found it. Kalecki slightly redefined the notion of two departments by assuming that they are vertically integrated, each of them producing only final goods, while in Marx's schemes of reproduction the first sector produces not only final goods but also intermediary goods for both sectors. However I realised very quickly that my criticism was childish. The small change introduced by Kalecki clarified immensely the meaning of Marx's schemes of reproduction and put in the centre of analysis the relation between investment goods (produced by Department 1) and consumption goods (produced by Department 2), i.e. the relation which became the corner stone of Kalecki's theory of effective demand in the early 1930<sup>th</sup>.

My next meeting with Kalecki was in 1956, at the Second Congress of the Polish Economists Society. He gave a presentation of his 'Dynamics of Investment and National Income in a Socialist Economy' (Kalecki (1956)). His paper rejected the so-called law of faster development of Department 1 compared to that of Department 2 as a condition for sustainable growth. He argued that requiring the producer goods department permanently to grow at a higher rate was tantamount to requiring a permanently higher growth rate of investment goods than of consumer goods, thus a continuous increase of the investment/income ratio, to the detriment of the consumption/income ratio.

It may seem strange why this rather obvious conclusion attracted great and lasting attention, not only mine but of all his audience, ever since Kalecki's first presentation in 1956. However, in that year, the year of Khrushchev's denunciation of Stalin's crimes, Kalecki had the courage to reject the old dogmas not only with respect to capitalist economies, but to socialist economies as well. The most important message of Kalecki's presentation was not his dismissal of a false policy prescription, but his method of analysing economic problems. He demonstrated that in economics (as in other fields of research) con-

sistent conclusions must be drawn from clearly formulated assumptions, with no room for arguments drawn from 'Holy Scriptures'. For me – and also for many others – this was the main message and the guide-post for the future. I had found my guru.

Kalecki's main job after returning to Poland was related to his advisory work in the Central Planning Commission. As he became more and more disappointed with these activities I tried to convince him that he should move to teaching and share his knowledge with students. It was not at all easy to persuade him, considering that he had never had a teaching position in academia, but at last I got him to agree to give a one term course (of two hours a week) in the Central School of Planning and Statistics (SGPiS) on his theory of dynamics of a capitalist economy, and another course on his *in statu nascendi* theory of growth of a socialist economy. I felt very happy until only a few days later Kalecki told me he could not accept my proposal because he had not enough material to lecture for two hours a week. It must be noted in this context that Kalecki almost never referred to other authors and their theories; he presented only results of his own research. I proposed he lectured only one hour and the second one would be devoted to questions and answers and this he accepted.

At the SGPiS next to teaching Kalecki got involved in intense research. His practical experience in the Planning Commission and the stylized facts elaborated there were the basis for his theory of growth in a socialist economy. His advisory work was inseparable from his theorizing; on the one hand practical problems with which he was confronted led him to theoretical generalizations, and on the other hand his theory was the point of departure for his expert advice. From the very beginning of Kalecki's work in SGPiS I have always closely collaborated with him. I can say that his theory of growth of a socialist economy came into being in front of my eyes. We discussed step by step every chapter of his book, and sometimes I was able to suggest some improvements. I tried as much as possible to disseminate the ideas of Kalecki's growth theory and especially in including them into academic curriculum of Polish universities. I also have been able to study in depth his theory of effective demand in a capitalist economy and get when needed additional explanations directly from him.

When in 1968 the group of Kalecki's students and collaborators became an object of rough and politically motivated attacks and I lost my professorship in SGPiS, the time had come to decide what to do next. Kalecki's opinion that Poland was no longer a place where economics could be pursued seriously, helped me to make up my mind. In my late 40ties, not ready after my war experiences to tolerate a new wave of anti-Semitism (also if disguised as a fight against Zionism) I decided to leave with my family Poland for good. Although almost penniless, in



my pocket I had a very positive letter of recommendation from Kalecki to 'Whom it may concern', and even more importantly a full-load in my head of his theories. Familiarity with Kalecki's theory was the invaluable asset that even the most malicious customs officers could not prevent me to take abroad.

My first stop was in Vienna where I had to spend a few weeks, mainly waiting for an immigration visa to Canada where I was offered a professorship in economics. When I refused the Canadian consulate officer in Vienna to accept his well-disposed suggestion to declare that I had been forced to become a member of the Communist Party (which in fact I left in March 1968 in protest against its anti-Semitic drive) because otherwise I could not pursue my university career in Poland, my future as a potential Canadian immigrant was decided. Andreas Papandreou, the later prime minister of Greece, who at that time was still the Dean of the Faculty of Economics at the York University of Toronto, started a petition campaign signed by a great number of Canadian economists but to no avail. Required by the petition to explain his decision to parliament, the Minister of Internal Affairs declared that I was considered a danger to Canadian security. Most probably this danger would have been much lower had my behaviour been more opportunistic.

My stop in Vienna was provisional. But *rien ne dure plus que le provisoire*, and my stay in Austria lasts already almost 38 years. With the help of Josef Steindl, the close collaborator of Kalecki in Oxford during the second world war, and Franz Nemschak, I almost immediately got a job in the new, just organized Department for Comparative Economic Studies at WIFO (Austrian Institute for Economic Research). I wanted, however, to continue my university career and already in 1971 I was confronted with a difficult choice between a professorship at the University of Linz and the University Catholique de Louvain. Louvain was a much older University, my French was at that time much better than my German. Indeed I had spent the whole academic year 1966/1967 as a visiting professor in the Haute Ecole des Sciences Sociales in Paris. I did not know the University of Linz, was never before in this town but could not wipe out from my memory the names of some Linz inhabitants who became horrifying ghosts of my personal history: Ernst Kaltenbrunner, Adolf Eichmann and the worst Franz Stengl, the commandant of the Death Camp in Treblinka where all my family had been gassed. On the other hand my children had already continued their education in German, and my wife was quite fluent in German but knew no French. I had already made some friends, some of who I first met in 1962 when I was for two months a visiting professor at the Institute for Higher Studies in Vienna. Moreover, the hospitality that I personally and my family enjoyed since the moment of our arrival to Austria did play an important role. I

decided to join the University of Linz.

Together with Kurt Rothschild we offered at the Linz University, to about 20 generations of students, not only a critical review of mainstream economics but also a radical theoretical alternative in the form of Kalecki's theory. I have made it my duty to pass on Kalecki's teaching to others, and looking back I have the feeling that my effort was not fruitless.

Another task was to develop Kalecki's theory and adjust it to new economic environment. Among my published papers I would like to select two directions in which I believe to have made some progress. Keynes's teaching was absorbed by mainstream economics and emasculated (contrary to Kalecki's, which was simply ignored). The spectacular result of this operation was the aggregate demand versus aggregate supply analysis whereby the macroeconomic equilibrium is achieved similarly to that in a market for an individual good, through the right price adjustment. Together with Amit Bhaduri and Martin Riese (Bhaduri et al (2001)) we proved that the whole construction suffers from a basic inconsistency. It did not change academic teaching in any way; there exists almost no macroeconomic textbook that does not repeat the evident mistake demonstrated by us. At the seminar devoted to the centenary of Kalecki's birthday in 1999 I presented a paper "Three ways to ... unemployment" (Laski (2004)) in which I argued that in majority of countries practical economic policy making does not only disregard Kalecki's proposals for full employment but that it simply contradicts his advice. In that paper I disclosed that the propensity to save started to play an important role that has not been known previously. In some countries (e.g. in the U.S.A.) the decline of the savings rate gave a push to consumption growth in the late 1990s which in turn led to an increase in investment and accelerated growth of GDP. In some other countries (e.g. in Germany) the increase of the savings rate limited the consumption growth and was conducive under low propensity to invest to slowing down of the GDP growth and increasing unemployment.

After retirement from Linz I was offered the position of the Research Director in the Vienna Institute for International Economic Studies (WIIW) which I enjoyed from 1991 to 1996. This was the time when the communist system broke down and the world was confronted with a completely new problem: how to go back from a centrally planned to a market economy. Somebody said the task was now how to transform scrambled eggs back into eggs. International organizations had a ready made and uniform answer for all transformation countries in the form of the Washington consensus. At the WIIW we tried – though, without much success – to prevent the approaching disaster in the form of a prolonged recession.

At the very beginning of the shock therapy in Poland I had the privilege to be invited to prepare an

experts' report of the expected results of this policy package. I came to the conclusion that GDP would fall over 1990 by 15 to 20 % instead of the tacitly assumed (although not published) decline of about 5 % (Laski (1990)). In 1990 GDP fell by 11,6% and 1991 by another 7%. As far as I know there was no other economist to foresee this development. This was not the result of any personal prophetic ability; I had simply used the method of Kalecki and tried to calculate the results of the decline of effective demand. My expertise was of course completely ignored and shelved.

Many students and even close collaborators of Kalecki in Poland experienced at about that time a kind of new 'illumination'. They moved directly from the thesis that the market cannot spontaneously adjust the propensity to invest to the propensity to save to the opposite thesis that the invisible hand of the market solves all problems if one is only ready to accept its functioning, and most importantly if the state does not interfere with this miraculous mechanism. The proponents of socialism with a humane face transformed themselves overnight into passionate free traders. In this way I had become a witness of a real development which Joan Robinson invented only in her imagination. She wrote once that the border between ideology and science in economics is not sharply determined. Imagine, she continued, that somebody changes his political opinions and at the same time his whole economics. This proves that his economic views contained nothing but ideology. If, however, somebody changes his political opinions but sticks to at least part of his economics, this part is – at least subjectively – science, not ideology. Some people need faith. They can replace the belief in Marx and Kalecki by one in Smith and Friedman, but they cannot get rid of some faith.

A number of my former Linz students and collaborators, presently occupying important positions in higher education and government administration, defy mainstream economy and act in the direction of a more efficient and egalitarian society. I feel I have contributed to this as I have also some modest share

in the international reputation WIIW has gained over the years. In this way I may have paid back my debt to my host country and contributed at the same time to preserve the intellectual heritage of Kalecki.

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# Book Review: 'Capital Theory'

by Angelo Reati<sup>1</sup>

Christopher Bliss, Avi J. Cohen and G.C. Harcourt, editors (2005). *Capital Theory*. Cheltenham: Edward Elgar. Three volume set: Vol. I: *lx*, 564 pp.; Vol. II: *x*, 515 pp.; Vol. III: *viii*, 522 pp.; Hardback 1840644818 £395.00.

Edward Elgar provides scholars with a large set of reference books, in which previously published contributions to a very detailed list of economic topics are brought together. As much of the important literature is still spread across a range of sources and is often difficult to access, these collections constitute an invaluable tool for research and for lectures. Just to quote one of these collections that is most relevant for the general economist, *The International Library of Critical Writings in Economics* approaches 200 titles, and there is now a new *Elgar Reference Collection* inspired by the same criterion of reproducing the leading articles on a specific subject.

This latter series is enhanced by three valuable thick volumes providing the essential contributions of the discussions on the basic concepts of our discipline that animated the academic scene in the 1960s and early 1970s. It was the controversies between the two Cambridges (Massachusetts and UK) in which the neoclassicals and the post-Keynesians of the Anglo-Italian school heatedly debated the very foundations of political economy, such as the notion of capital and profit, scarcity, the production function, equilibrium and time as well as the growth models that rely on these notions.

**Key concepts** To understand the character and scope of the Cambridge debates we should start from the standard neoclassical wisdom that is still taught in our universities. It is summarized by three "parables",<sup>2</sup> i.e.

1. There is an inverse monotonic relation between the rate of profit (rate of interest) and the degree of mechanisation (Capital/Labour ratio). One can also express this by saying that there is a negative association between the rate of profit and quantity of capital employed;
2. There exists a negative association between the rate of profit and

- Capital/Output ratio;

- sustainable steady-state levels of consumption per head;

3. The distribution of income between capitalists and workers is explained by the marginal productivity of factors (*in price terms*), and by relative factor scarcities – i.e., the rate of profit is equal to the marginal productivity of capital and the wage rate is equal to the marginal productivity of labour.

The implication is that the economy can be represented by an aggregate production function in which total output is a function of total capital and labour, and in which the properties of the above parables apply.

All this was sharply contested by the post-Keynesians of Cambridge, UK.<sup>3</sup> They started by pointing out the problems arising from the dual nature of capital – as a sum of money to buy capital goods (the financial aspect) and as a set of heterogeneous physical goods (raw materials, plant and machinery). To obtain an aggregate magnitude for capital goods we need to rely on prices, and it is precisely here that inconsistencies occur. In fact, the price of capital goods depends, as does any other price, on the rate of profit: when the rate of profit changes, the entire price structure of the economy changes (Pasinetti (1977), p. 82-84), with results that destroy the neoclassical parables. We can have "capital reversing" as well as "reswitching of techniques".

Capital reversing (or price Wicksell effect) happens when, for a given technical structure of the economy, an increase of the rate of profit – and the ensuing change in the price of capital – can open the possibility of an increase of the capital/labour ratio, as aggregate capital in price terms changes while labour does not. Thus, for the same set of physical capital, we have different values for the capital/labour ratio in price terms. This contradicts the first neoclassical parable.

"Reswitching of techniques" (or real Wicksell effect) appears when the cost-minimizing technique changes in relation to changes in the rate of profit, producing outcomes that are at odds with the second neoclassical parable. For instance, a technique with high capital/labour ratio that is chosen at low levels of the rate of profit, and then substituted with a technique with lower capital/labour ratio when the rate of profit increases, can become the most profitable when the rate of profit further goes up. In other

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<sup>2</sup>"Parable" is used in the sense of a simplified version of the theory that reflects the essential of reality.

<sup>3</sup>I also include Sraffians under this post-Keynesian label.

<sup>4</sup>This result is due to Sraffa's hint in chapter 12 of his book (Sraffa (1960)), and is based on the shape of the wage-profit rates curves ( $w - r$  relation) that are associated with the price system of the economy. The  $w - r$  curves are derived as follows, Pasinetti (1977), pp. 84-89:

words, the same technique is preferred for two different levels of the rate of profit, while other techniques are most profitable at intermediate rates.<sup>4</sup>

On the third neoclassic parable the post-Keynesian scholars argued that it rests on circular reasoning. Indeed, considering that the value in price terms of capital is determined by the rate of profit, it is tautological to say that the rate of profit is determined by the marginal productivity of capital.

The reader is introduced into the complexities of the debate by two opening essays reflecting the contending positions: Christopher Bliss for the neoclassicals, Avi Cohen and Geoff Harcourt for the post-Keynesians.

Two main themes dominate the theory of capital: the determination of the rate of interest (rate of profit) and economic growth. Bliss's introduction starts by recalling the dual nature of capital – physical and financial – and then goes on to deal with growth models. A substantial part of his essay is devoted to the task of demonstrating that it is possible to introduce heterogeneous capital in neoclassical models without destroying the essential thrust of the neoclassical parables. It appears that, instead of obtaining a unique steady-state situation, we have multiple equilibria with their own rates of return (i.e. a range of profit rates instead of the uniform rate of profit resulting from competition). Other paradoxes can also manifest in two-sector models (consumption is separated from other inputs) or when there is a fixed constant saving coefficient. Bliss has the merit of acknowledging all these weak or unsolved points of the neoclassical approach arguing, however, that “simple models seem to be inadequate, although they may throw light on some important issues” (page xxv). The endogenous growth theory – the best heir of neoclassical theory – could fit well with this argument, as it makes extensive use of neoclassical tools such as the aggregate production function.

Cohen and Harcourt provide a thorough survey of the basic tenets of the controversy, thus allowing the non-specialised reader to follow the debate.

- From the system of equations of the prices of the economy we take one equation, referring to commodity  $i$ , and put its price as the numéraire of the system ( $p_i = 1$ )
- Solving this equation with respect to the wage rate ( $w$ ) we obtain a downward-sloped  $w-r$  relation. The shape of this curve is rather irregular because  $w$  is a polynomial function in  $r$ ;
- The price system and the corresponding  $w - r$  relation depend on the technical structure of the economy. If, in any part of the system, there is a change of the technique used, the price structure and its  $w - r$  curve change;
- Consider now two economic systems  $A$  and  $B$ , that differ from the fact that in  $B$  one industry operates on the basis of a different technique with respect to  $A$ . Taking the same numéraire ( $p_i = 1$  for both systems), we can compare the  $w - r$  curves of the two systems, that can be put on the same diagram;
- As noted by Sraffa, there is the possibility that the two curves intersect more than once – thus reswitching.

<sup>5</sup>A *vision* is a preanalytic cognitive act that supplies the raw material for the analytic effort (Schumpeter).

<sup>6</sup>The logical consequence of the Classical approach is the labour theory of value. However, not all post-Keynesians share this view with the result that, on such an essential point, their position is fuzzy.

<sup>7</sup>The contrasting opinion is that: “for some time to come, progress in the theory of capital and income distribution will only be possible [...] by the negative act of dumping ballast” (Pasinetti (1977), p. 177).

<sup>8</sup>Square brackets refer to the year of first publication of the essays.

They start by noting that most capital controversies originate from opposing visions and from the corresponding theories of value.<sup>5</sup> While post-Keynesians are inspired by the Classical focus on production and on value as cost of production, neoclassicals derive their views from scarcity and define value on the basis of utility.<sup>6</sup> The neoclassical parables are a direct consequence of the latter approach, and have oriented the debate around two major problems, i.e. how to integrate production into the scarcity theory of value, and how to integrate capital and time into equilibrium models. The extensive discussion of this second aspect leads Cohen and Harcourt to dismiss the “panacea of one-commodity models” on the grounds that the assumptions of one-commodity, “putty” (malleable) capital and equal factor proportions actually merge the physical and financial aspects of capital, “thereby eliminating the effects of interdependence and time” (page xli).

Cohen and Harcourt conclude by observing that capital controversies are not just on technicalities, but are also influenced by ideology. This should not surprise us, as “vision is ideological almost by definition” (Schumpeter). Ideology influenced the capital controversies on two points. First, on the ethical justification of profit and interest. Secondly, in sustaining the ‘faith’ that disputants maintain in their theories when their one-commodity results do not generalize, and the ‘faith’ that disequilibrium dynamics will converge to equilibrium outcomes. Even if these professions of faith were ridiculed, the authors subscribe Blaug’s opinion that “there is nothing irrational about the tendency of scientists to hang on to a theory despite anomalies if no better rival theory is available” (page li).<sup>7</sup>

**Volume One** Volume One deals essentially with the alternative conceptions of capital:<sup>8</sup>

1. the Classical and Marxian, in part I. We find excerpts from Ricardo ‘On Value’ and ‘On machinery’ [1951: Sraffa’s edition] and Marx [1891] on ‘wage labour and capital’;

2. the neoclassical impatience and productivity, in part. II. Among others, articles by N.W. Senior [1836], Böhm-Bawerk [1889], J.B. Clark [1891; 1899], Wicksell [1934], Samuelson [1967], Schumpeter [1934]. These basic texts are supplemented by Ahmad's paper [1998] comparing Rae (who worked out the basis of the neoclassical theory of interest already in 1834), Böhm-Bawerk and I. Fisher on supply and demand of capital, and by Steedman's article [1972] on Jevons;
3. the Austrian approach, in part III. Contributions by Menger [1871] on the theory of value and by Fetter [1902], who criticises Böhm-Bawerk's approach.
4. Part IV of the volume reports the early neoclassical capital controversies, with five papers (Veblen [1908], Cohen [1998], Steedman [1994], Milgate [1979] and Weston [1951]).

Considering that, for reasons of space, it is not possible to summarize all these contributions, I just refer to Hennings's [1987] historical survey of the notion of capital - from the preclassical authors to the recent debates - that opens the volume. Two elements characterise the classical approach. First, capital is a social relation, and the social relevance of capital accumulation implicitly dismisses the relevance of the individuals' hoarding of consumption goods (Pasinetti [1983]). Second, capital goods are not productive by themselves but are a means to assist labour, by increasing labour productivity. It follows that capital does not have the status of factor of production, indeed it is 'stored-up' labour (i.e. outputs produced by past labour). This approach was reversed by neoclassicals who - noting that financial capital yields an income (interest) - thought that this property also holds for physical capital. Capital was thus considered productive and a true factor of production, on the same footing as labour and land. We have here the confusion between the two aspects of capital - a stock of produced capital goods and a sum of money - that had a pernicious influence on the whole debate.

**Volume Two** The first three parts of Volume Two are on neoclassical theory: the growth models in part I and II, and the production function in part III. Then the volume shifts to the competing approach, with essays on Keynes and the Cambridge school in part IV, and Sraffa and the Sraffians in part V. The volume is completed by two additional parts on "Disaggregated capital, accumulation and general equilibrium" (part VI), and "Capital and overlapping generations" (part VII), reporting the neoclassical attempts to deal with heterogeneous capital goods.

The one-commodity case is presented in part I by Solow [1956]. This seminal article is based on the

hypotheses that: (i) the single goods produced in the system can be used alternatively for consumption or as means of production, (ii) capital is malleable (a "jelly"), (iii) the production function is 'well-behaved' and (iv) capital-labour substitution is always possible in a timeless and costless way. This initial part of the volume is completed by the Ramsey [1928] and Champernowne [1945-1945] papers, relying on this kind of modelling growth.

The two-sector models - in which the economy produces two commodities, an undifferentiated consumer goods and a putty capital goods - are surveyed in Hahn and Matthew's paper [1964]. This summary is substantiated by four articles: Dorfman, Samuelson and Solow [1971] on 'Efficient programmes of capital accumulation' (with disaggregated capital); Solow [1963], on 'The rate of return on investment'; Salter [1966] on the implications of putty capital assumptions; M. Friedman [1976] on 'The theory of capital and the rate of interest'.

Part III starts with the seminal Cobb and Douglas's article; it is followed by Joan Robinson's [1953-1954] sharp objections, particularly on the inconsistencies that result when capital is measured in price terms. Then there is Champernowne's [1953-1954] attempt to overcome Robinson's objections by the chain-index of capital. The problem is resumed by Solow [1955-1956] and it is followed by F.M. Fisher's [1971] devastating criticism of the Cobb-Douglas production function. Considering that such questioning comes from a mainstream scholar, it is worth quoting it.

Fisher starts by recalling the results of his past research showing that "the conditions under which ... an aggregate production function [works properly] are far too stringent to be believable" (page 252). Then he demonstrates that "the apparent success of aggregate Cobb-Douglas production functions is due to the relative constancy of labor's share" (id. p. 253); in other words, "labor's share just happens to approximate the central stylized fact generated by such a function, *even though the mechanism actually generating wages and output is rather different*" (id. p. 253 emphasis added). Subsequently, Shaikh (1974; 1980) has shown that the alleged empirical robustness of the Cobb-Douglas is indeed due to the fact that, under the above mentioned assumption of constant income distribution, the function reduces to an accounting identity, stating that aggregate output is equal to the sum of profits and wages. It is precisely this feature that produces the good econometric fit of the function.

On part IV I have noted Kahn's paper [1959] on 'Exercises in the analysis of growth' and, in part V, a letter from Sraffa to Joan Robinson on the measurement of capital, as well as an excerpt of Sraffa (1960) on the 'Reduction to dated quantities of labour'.

**Volume Three** Volume Three is essentially concerned with the controversies – part I: reswitching and capital reversing; part II: assessing the debates. The subject is concluded by an account of recent developments on the endogenous growth theory.

Part I begins with Samuelson's classical article [1962] on the "surrogate production function", in which he tries to marry heterogeneous capital goods with the neoclassical parables on distribution and capital-labour substitution. The two essays that follow (Pasinetti [1966] and Garegnani [1970]) show the drawbacks of such an endeavour, which are recognised by Samuelson's 'Summing up' [1966]. Then there is the discussion between Pasinetti [1969; 1970] and Solow [1970] on Solow's attempt to resurrect the neoclassical aggregate capital theory through the equality between the interest rate and the social rate of return on investment. This part is completed by a Burmeister's [1976] paper supporting the qualitative conclusions of the neoclassical one-sector parable.

In part II, the Cambridge controversies are assessed by Harcourt [1969; 1976], Robinson [1974; 1975], Badhuri [1969], Cohen [1989], on the post-Keynesian front, and by Hahn [1982] and Blaug [1975] on the opposite one.

Harcourt [1969] is a substantial part of his seminal JEL article in which the debate was summarised in a very pedagogical and vivid way. Harcourt [1976] is a useful update. At the end of a long discussion on the main neoclassical tenets, he concludes that general equilibrium – that emerged logically intact from the debate – "is *not* the theory which is relevant for the issues raised in the Cambridge controversies" (p. 266) and, in any case, it is unable to model capitalist society satisfactorily. Badhuri discusses the Marxian approach to capital, while Joan Robinson stresses the necessity to ground the analysis on historical, instead of logical, time – something that makes the neoclassical apparatus useless for dealing with contemporary problems. On 'The unimportance of reswitching' Robinson [1975] maintains that "when investment is being planned,....the choice of technique is made by groping amongst incomplete information. There are no ready-blue-printed techniques to choose from. ....The blue-prints are drawn when the technique has been chosen, and it will rarely turn out, after the event, that exactly the best possible choice was made" (pp. 231-2)

Hahn's article was intended to be the obituary of 'The Neo-Ricardians': all that one finds in Sraffa – he argues – can also be found in neoclassical economics. However, neoclassical theory is richer, because it is able to explain many things that are not explained by Sraffa, such as the decision on the quantities to produce, the choice of technique and income distribution. Moreover, if we consider a disaggregated model of general equilibrium, we obtain all the neoclassical results on prices and income distribu-

tion without recurring to an aggregate notion of capital. Reswitching can create difficulties for the simple neoclassical model, but it has nothing to say on the theory of marginal productivity.<sup>9</sup> In any case, simple neoclassical growth models provide useful insights for actual problems.

Blaug's 'Final judgement' [1975] accuses the post-Keynesians of having a theory without measurement, as "they are totally incapable of producing testable predictions" (p. 203), and of adopting a method of analysis deliberately framed to deny simultaneous determination of economic variables. In Blaug's view, neoclassical overwhelming superiority lies in its flexibility and manipulability as well as from the fact that one cannot get along from the concepts of maximisation, equilibrium and substitution that are at the roots of mainstream economics.

Part III of the volume – on endogenous growth – includes eight articles covering the essential contributions. I will just signal Arrow's [1962] famous paper on 'learning by doing' and two articles by Romer [1986 and 1990], laying down the foundations of this new approach to growth.

**Discussion** To conclude this review I would like to make some comments on the question of reswitching – a tricky question indeed.

For the neoclassicals – who were obliged to admit the possibility of such an event – reswitching remains a mathematical possibility (a *curiosum*) with no relevance for real economies. As any theorising rests on simplifications – they could argue – it is quite legitimate to neglect some improbable facts in order to concentrate on what is deemed essential. Giffen's paradox, for instance, does not discard the general validity of demand and supply relations.

For the post-Keynesians, on the contrary, "nothing could be more idle than to get up an argument about whether reswitching is 'likely' to be found in reality" (Robinson [1975], vol. III, p. 231). Reswitching – they maintain – is a theoretical problem, not an empirical one, and the mere fact of its logical possibility destroys the explanation of income distribution in terms of marginal productivities and scarcity of factors.

While understanding the weight of such an argument, I remain sensitive to the empirical side of the scientific method. Now, on the question at stake, we have two kinds of evidence. The first one consists of computing the probability that reswitching actually happens on the basis of the Monte Carlo method (D'Ippolito (1989)). The result was that the likelihood is rather small but positive. The other kind of evidence is strictly empirical: the wage-profit rates curve ( $w - r$  curve) are estimated for real economies (Ochoa (1989); Da Silva (1991); Han and Schefold (2006)). Ochoa and Da Silva calculated the  $w - r$

<sup>9</sup>See Petri 1999 for a thorough discussion.

curves respectively for the US and Brazil, obtaining a surprisingly quasi-linear relation.<sup>10</sup> This could suggest that, in practice, reswitching does not occur because straight lines cannot intercept more than once. However, the quasi-linearity of these  $w - r$  relations is not really proof that reswitching is unlikely, because the correct experiment consists in comparing the  $w - r$  curves that would result from the alternative techniques available at a given moment ("the book of blueprints"), and not just by considering the  $w - r$  curve resulting from the choice that has been made for a given year. Han and Schefold overcome this objection estimating the  $w - r$  envelopes for 32 input-output tables for nine OECD countries for 1979-1986. Reswitching appeared in one case, and in 3.65% of tested cases there was a "perverse" substitution of labour, i.e. capital-labour substitution that contradicts the neoclassical parable.

Considering that Han and Schefold's findings could appear meagre (just one case of reswitching), one could ask whether it does not indeed confirm the neoclassical contention that reswitching is irrelevant in real life, and what resulted empirically is a fluke. The discussion remains open.

Post-Keynesians could maintain that the above evidence proved that reswitching is a real phenomenon, although its probability is low. The theoretical criticism of neoclassical theory therefore remains. In any case, it is not necessary to rely on reswitching to show that the neoclassical parable on capital-labour substitution is not a general truth, but rather a possibility (see, for instance, Reati (2002)).

Having said this, I would like to add that I am not surprised that, in spite of the large number cases they examined, Han and Schefold found just one occurrence of reswitching. Their result is indeed very much in line with an analysis of the choice of technique in the framework of the long-term evolution of real economies.

The question of the choice of technique - and its possible consequences in terms of switching and reswitching - should, in fact, be addressed making the distinction between radical and incremental innovations, and framing the discussion within the notions of technological paradigms and technological trajectories.

Techniques relating to radical innovations are "dominant" techniques, i.e. techniques that, when compared with all other alternatives, allow for a higher profit rate for any level of the wage rate. Obviously, this excludes reswitching. To illustrate this, one could refer to the current situation where, when a firm decides to shift its production towards a low-wage country, it chooses the most recent techniques, not necessarily the most labour-intensive ones. Also, in a more dynamic context the opportunities to

choose dominant techniques are pervasive. Think, for instance, of the long-term expansion produced by technological revolutions (the long-waves). During the long expansion (25-30 years) there is the diffusion of the new (dominant) techniques that characterize the new technological paradigm. During the long stagnation there is the incipient diffusion of the radical innovations that will shape the next technological revolution. Thus, for a very substantial part of reality, the problem that animates the debate with the neoclassicals does not arise.

Consider now incremental innovations, i.e. improvements in the (dominant) techniques already in use - a change that becomes relevant when firms have to renew an old plant or equipment. While the dominant technique is necessarily chosen - as there are no valid alternatives - for incremental innovations there are several possible choices. In theory one cannot exclude that in the future, when the firm has to replace again obsolete machinery, a change in the  $w - r$  relation could make profitable to adopt a technique that was abandoned in the past. In my view, even in this case of incremental innovations, an incidental reswitching is unlikely. My statement is justified by the notions of technological paradigms and technological trajectories. Empirical evidence shows, in fact, that once the economy has turned onto a given technological trajectory (that, for instance, is labour saving), it is extremely unlikely that it will abandon it: technical progress is a cumulative and irreversible process, characterised by strong "path dependence".

**Conclusion** In conclusion, in this period of *pensée unique* a book like this one is very welcome and much needed to recall old unsolved debates - debates that keep intact their pertinence and that remind us that the foundations of mainstream economics are far from being sound. This is the necessary preliminary step for a reconstruction of the theory on the lines of the Classical tradition.

*Capital Theory* should be on the shelves of all libraries and should be read particularly by our younger colleagues, who suffered teaching that ignores the fallacies of the neoclassical parables. The best neoclassicals recognised such fallacies quite early, but all this was minimised and eventually forgotten by their epigones. The continuous use of the Cobb-Douglas production function in both theoretical and empirical research is one of the most prominent examples of such neglect.

<sup>10</sup>The quasi-linear relation is surprising because the mathematical form of the profit-wage relation is a polynomial of very high degree (the degree depending on the number of industries of the input-output tables considered), which in principle should show a rather irregular shape.

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# Book Review: 'The new economy and macroeconomic stability'

by Angelo Reati<sup>1</sup>

Togati, Teodoro Dario (2006). *The New Economy and Macroeconomic Stability. A neo-modern perspective drawing on complexity approach and Keynesian economics*. London, New York: Routledge, 309 pp., Hardback ISBN 0-415-33876-X, £80.00; \$ 140.00

With the appearance of the so-called "new economy" the thesis of the obsolescence of business cycles surfaced. In the 1950s and 1960s such a thesis was motivated by the effectiveness of Keynesian policies of fine tuning, whose main result was that, instead of having decreases of GDP level during recessions, we had only reductions in the growth rates. The "new

economy", it is now argued, produces similar effects, as economic expansion and productivity growth go together with less inflation; the consequence is increased overall stability. The purpose of this book is to assess critically such a thesis.

The argument is developed in two stages. The first stage is on preliminaries, and covers the initial three parts of the book (a little more than 100 pages). The second stage, in which the stability issue is explicitly tackled, is treated in parts IV and V (about 150 pages). In the initial phase of his argument, Togati starts by explaining the "alternative approaches to stability" (part I of the book); then he continues with a detailed account of the general approach that inspires his analysis, i.e. the neo-modern

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perspective and the complexity theory (part II); this preliminary stage is closed by a description of “the two basic macroeconomic paradigms” – (part III) – the neoclassical and Keynesian. The second stage of the analysis (parts IV and V, specifically devoted to the new economy) is performed in two steps. In part IV (“A preliminary account of stability of the new economy”, about 170 pages) the author presents a general definition of the new economy focussing, for each main features of this new economy, on the elements favouring increased stability as well as on the forces acting in the opposite sense. In the final part of the book (“The new economy and macroeconomic theories”, from page 185 to 266), Togati compares the alternative scenarios of the new economy proposed by the New Classical and the Keynesian macroeconomics. This allows him to point out the causal mechanisms between the components of the new economy described in part IV, and to assess whether the components of stability will prevail over the components of instability.

The new economy is defined in chapters 10 to 15 on the basis of five elements: (1) the acceleration of globalisation (that the author calls “multiplicity”); (2) technological change and the necessary complementary institutions (called “rapidity”); (3) the increased role of “weightless” factors, such as intangible and financial assets as well as services (“lightness”); (4) improved activities of measurement, data collection, formalization and prediction made possible by ICT (“precision”); (5) new policies based on deregulation, privatisation and rule-based macroeconomic policies (called “visibility”, as they counteract the invisible hand of the market mechanism). Each component of the above definition of the new economy involves contradictory effects on stability, as it frees forces that support equilibrium and others forces that act in the opposite sense. Thus the problem is to establish which will prevail. For this purpose, the author makes a detailed comparison of the New Classical Macroeconomics (considered as the most refined version of the neoclassical theory) with the Keynesian theory, from the angle of each of the above five components of the new economy. For supporters of the New Classical Macroeconomics, the new economy is more stable than the ‘old’ economy, essentially because the new economy makes markets more efficient. However, the juxtaposition with the Keynesian theory shows that such a conclusion is based on a too narrow perspective. In fact, the Keynesian model captures the essence of the phenomena in question better than the rival one, since it is centred on the mutual interest of agents instead of considering only self-interest and competition. It follows that, in a Keynesian perspective, “although equilibrium may be reached faster in the N[ew] E[conomy] than in past stages of development, it may be highly unsatis-

factory in the absence of adequate policy moves, especially of those supporting aggregate demand” (p. 261).

Togati’s book is a rich and useful piece of research that deserves attention. The arguments are clearly and thoroughly expounded - something that the reader would certainly appreciate. Among other things, those who are unfamiliar with the complexity theory will find a good summary in part II of the book. Some elements of dissatisfaction and disagreement exist that, however, do not undermine the value of the book. I just refer to the following:

- In part I, Togati quotes the essential contributions of the Schumpeterian school to the study of the new economy. It is a pity, however, that he does not take advantage of this literature to situate the new economy within the broader context of long-term development of capitalist societies. Had he benefited from the works he quotes (Freeman, Louçã, Perez, Dosi, for instance), he would have realized that what is called the “new economy” is indeed the fifth long-wave, that was very well described and theorized by Freeman and Louça (2001) and by Perez (2002), just to quote the most recent and relevant contributions. Thus, the simple juxtaposition of the “new” to the “old” economy without reference to their historical roots appears quite unsatisfactory.<sup>2</sup>
- Togati’s classification of economic theory in two paradigms - the neoclassical and the Keynesian - seems to me too partial. As was convincingly argued by some authors (see, for instance, Pasinetti (1986)) a broader classification of economic theories could be done on the basis of the production approach inspired by the Classical economists (Smith, Ricardo, Malthus, Marx), on the one hand, and the exchange approach (Jevons and all the other Marginalists), on the other. Keynes belongs to the production paradigm, which also includes the Schumpeterian and evolutionary scholars that contributed in a fundamental way to the study of the “new economy”. It is worth emphasising, in this respect, that the Schumpeterian and evolutionary theories in question fully embody the main thrust of the Keynesian theory, which is further enriched by the introduction of the supply side. By neglecting this broader - production oriented - approach to economic thought, Togati misses the opportunity to benefit from the Schumpeterian advances of our knowledge on the present situation.
- On the stability issue, for instance, Pasinetti (1981), pp. 236 ff., demonstrates, at theoretical

<sup>2</sup>Alternative labels for the “new economy”, that focus on some aspects of the current technological revolution in computer and information technologies, are: information society and knowledge based society.

level, that structural change – that sets the long-term trend – generates business cycles at the same time. Also, at the historical/institutional level Perez (2002) explains in detail how long-waves are characterised by great turbulence and conflict, including financial bubbles during a well-determined phase of the wave. For Perez, institutional change is one of the key elements allowing the full deployment of each long-wave; this obviously applies to the new economy. In other words, to display its positive effects, the technological paradigm must become a socio-economic paradigm, through appropriate institutions that do not result automatically from market forces. A better consideration of these studies would certainly have enriched Togati's analysis, and prevented the unjustified criticism of technological determinism addressed to the Schumpeterian school.

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## Publications

### JOIE: Contents of recent issues

EAEPE sponsors the Journal of Institutional Economics (JOIE), owned by the JOIE Foundation. JOIE is devoted to the study of the nature, role and evolution of institutions in the economy, including firms, states, markets, money, households and other vital institutions and organizations. It welcomes contributions by all schools of thought that can contribute to our understanding of the features, development and functions of real world economic institutions and organizations. It is edited by Geoffrey M. Hodgson, Elias L. Khalil, Richard N. Langlois, Bart Nooteboom and Ugo Pagano.

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JOIE accepts electronic submissions only. The Editor in Chief is Geoffrey Hodgson [g.m.hodgson@herts.ac.uk](mailto:g.m.hodgson@herts.ac.uk) to whom papers should be submitted. Authors should consult the JOIE Notes for Contributors and adhere to its guidelines (see [http://eaepe.org/images/notes\\_for\\_contributors.pdf](http://eaepe.org/images/notes_for_contributors.pdf)).

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### Table of Contents of the recent JOIE issue: vol. 2(1), April 2006

#### • Research articles

- 'The turn in economics: neoclassical dominance or mainstream pluralism?' by John B. Davis
- 'Local cluster dynamics: trajectories of mature industrial districts between decline and multiple embeddedness' by Antonella Zucchella

- 'The rhetoric of Oliver Williamson's transaction cost economics' by Huascar F. Pesali
- 'Convergence of financial systems: towards an evolutionary perspective' by Werner Hölzl

- **Review essay**

- 'Social limits to the commodification of knowledge: ten years of TRIPs' by Christopher May

- **Fragment**

- 'Economic theory and economic history' (1929), by Werner Sombart

### **Table of Contents of the recent JOIE issue: vol. 2(2), August 2006**

- **Special Issue on institutions and ecosystems**

- 'Introduction to the Special Issue on institutions and ecosystems: historical institutional analysis of social-ecological systems' by Marco Janssen
- 'Robustness, institutions and large-changes in socio-ecological systems: the Hohokam of the Phoenix Basin' by John Anderies
- 'The footprints of history: property rights transformation on Kenya's Maasailand' by Esther Mwangi
- 'Modernisation and reform of Dutch waterboards: resilience or change?' by Theo A.J. Toonen, Gerrit S.A. Dijkstra and Frits van der Meer
- 'Foundations of a robust socio-ecological system: irrigation institutions in Taiwan' by Wai Fung Lam
- 'The robustness of Montane irrigation systems of Thailand in a dynamic human-water resources interface' by Ganesh P. Shivakoti and Ram C. Bastakoti

For viewing the abstracts go to <http://journals.cambridge.org/action/displayJournal?jid=JOI>.

### **Publications by EAEPE Members and PhD abstracts**

In this section we list recent or forthcoming publication by EAEPE members. It is necessarily incomplete, but it should give EAEPE members an overview on the work of other EAEPE members. We therefore invite all, but especially less senior or

younger EAEPE members to submit to the editors a list of their publications published or forthcoming the year 2005, together with web-links to the work and a short abstract. This is a way to inform other people about your research.

### **Papers**

1. Elsner, W., Schoenig, W. (2005). Economic and corporate governance. *Corporate Ownership and Control* 3(1), 71-80.
2. Elsner, W. (2005). Real-world economics today: The new complexity, co-ordination, and policy. *Review of Social Economy* 63(1), 19-53.
3. Elsner, W. (2005). Regional industries and environmental impacts. Long-run regional economic effects of climate change: The case of the coastal and estuary zone of the German northwest. *Journal of Environmental Planning and Management* 48(5), 665-690.
4. Elsner, W. (forthcoming 2006). Market and state. Forthcoming in: P. O'Hara, editor. *International Encyclopedia of Public Policy*.
5. Hölzl, W., Reinstaller, A., Windrum, P. (forthcoming 2006). Organisational innovation, information technology, and outsourcing to business services. Forthcoming in: Kox, H., Rubalcaba, L., editors. *Business Services in European Economic Growth*. London: Macmillan.
6. Reinstaller, A. (forthcoming 2006). Shaping the selection environment. The technological transition to chlorine free pulp bleaching technologies. Forthcoming in the special issue on "Cleaner Technologies Diffusion: Case Studies, Modelling and Policy" of the *Journal of Cleaner Production*, edited by Carlos Montalvo Corral and René Kemp.
7. Yalcintas, A. (2006). Historical small events and the eclipse of utopia: Perspectives on path Dependence in human thought. *Culture Theory and Critique* 47(1). Special issue on "Intellectual History".

### **Monographs**

1. Elsner, W., Huebscher, A., Zachcial, M. (2005). *Regionale Logistik-Cluster. Statistische Erfassung, Stärken und Schwächen, Handlungspotentiale. An den Beispielen Bremen, Hamburg und Rotterdam*. Frankfurt/M.: Peter Lang, Series "Strukturwandel und Strukturpolitik", vol. 13.
2. Elsner, W., Otte, C., Yu, I. (2005). *Klimawandel und regionale Wirtschaft. Vermögensschäden und Einkommensverluste durch extreme Klimaereignisse sowie Kosten-Nutzen-Analysen von*

*Schutzmassnahmen. Am Beispiel der nordwest-deutschen Küstenregion.* Frankfurt/M.: Peter Lang, Series "Strukturwandel und Strukturpolitik", vol. 12.

3. Elsner, W., Ramazzotti, P., Frigato, P. (forthcoming 2006), editors. *Social Costs and Public Action in Modern Capitalism. Essays inspired by Karl William Kapp's Theory of Social Costs.* London, New York: Routledge.
4. Morroni M., *Knowledge, Scale and Transactions in the Theory of the Firm*, forthcoming May 2006. Hardback ISBN-10: 0521862434. Cambridge: Cambridge University Press, Cambridge, <http://www.cambridge.org/uk/catalogue/catalogue.asp?isbn=0521862434> £50.

## EAEPE Books

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### Recently published or forthcoming volumes

**Complexity and the Economy Implications for Economic Policy.** Cheltenham: Edward Elgar. Hardback ISBN 1-84376-668-X, £75.00.

Edited by John Finch, Senior Lecturer in Economics, University of Aberdeen Business School, UK and Magali Orillard, Professor, GREQAM, Université Paul Cézanne Aix-Marseille III, France. Complexity and the Economy brings together a range of perspectives from internationally-renowned scholars. The book surveys conceptual approaches to understanding complexity as a key subject in evolutionary and political economy.

The authors examine the causes and consequences of complexity among the broadly economic phenomena of firms, industries and socio-economic policy. The book makes a valuable contribution to the increasingly prominent subject of complexity, especially for those whose interests include evolutionary, behavioural, political and social approaches to understanding economics and economic phenomena. Complexity has become something of a leitmotif among scholars with these interests. This book contributes specific, distinctive and policy-oriented elaborations, criticisms, applications and analyses of economic phenomena as interpreted complexly.

Drawing together strands of research with the aim of applying complexity theory, this book will be of great interest to researchers of political economy and evolutionary economics.

Recently the EAEPE series has been relaunched with the aim to produce more focused volumes consisting of conference contributions but also invited papers. The first book in the relaunched series is forthcoming in April 2006:

**Understanding The Dynamics Of A Knowledge Economy**, forthcoming in April 2006, 256pp., Hardback ISBN 1845423070, Cheltenham: Edward Elgar £58.50.

Edited by Wilfred Dolfsma, Economist and Philosopher, Erasmus University Rotterdam and Maastricht University, Corresponding Editor, Review of Social Economy and 2005/6 NIAS Fellow, The Netherlands and Luc Soete, Joint Director, United Nations University-Institute for New Technologies (UNU-INTECH) and the Maastricht Economic Research Institute on Innovation and Technology (MERIT) and Professor of International Economics, Maastricht University, The Netherlands

The 'knowledge economy' is a concept commonly deemed too ambiguous and elusive to hold any significance in current economic debate. This valuable new book seeks to refute that myth. Presenting an important collection of views, from a number of leading scholars, this innovative volume visibly demonstrates that knowledge and information are a prime resource in driving the dynamics of an economy.

It is argued that in order to understand the knowledge economy, a diverse set of insights and approaches are required, which shed new and striking light on the roots of present day economic dynamics. Using both theoretical and empirical material, this interdisciplinary collection offers a range of macro and micro perspectives. It draws on a variety of scientific backgrounds, and uses and develops a number of different methodologies, some of which may not be familiar to mainstream economics. The approaches adopted by historians, economists, systems theorists, management scholars and geographers which are explored in this book, are central to encouraging a new and practical way forward in reading the dynamics of the knowledge economy.

In offering these key insights, this important volume makes an invaluable contribution to the lively debate surrounding the knowledge economy. An essential read for economists, this book will also find widespread appeal amongst scholars of management, cultural studies and geography.

More details are available under [http://www.e-elgar.co.uk/Bookentry\\_Main.lasso?id=3799](http://www.e-elgar.co.uk/Bookentry_Main.lasso?id=3799)

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### Fred Lee's Heterodox Economics Newsletter

The Fred Lee's Heterodox economics newsletter Fred Lee maintains a email list of people interested in heterodox economics issues. He also maintains a web site <http://1.web.umkc.edu/leefs/htn.htm> which has information on calls for papers, conferences, jobs vacancies, papers, journals, books and web site. In fact pretty much everything that is going on in heterodox economics. He produces a regular newsletter which is posted out on email and is on the site (check out the latest issue at <http://1.web.umkc.edu/leefs/htn30.htm>). If you are not on his mailing list, how have you escaped? If you would like to be on this very useful list contact Fred on [leefs@umkc.edu](mailto:leefs@umkc.edu).

### The Post-Autistic Economics Review

The Post-Autistic Economics Review is edited by Edward Fullbrook and publishes on a regular basis articles by heterodox economists on methodological issues. Please visit the web site [http://www.btinternet.com/~pae\\_news/join.htm](http://www.btinternet.com/~pae_news/join.htm).

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