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Article

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European Journal of Economics and Economic Policies: Intervention (EJEEP)

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Dullien, Sebastian; Hein, Eckhard; van Treeck, Till (2013) : Editorial: The state of economics after the crisis, European Journal of Economics and Economic Policies: Intervention (EJEEP), ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 10, Iss. 2, pp. 133-135, <https://doi.org/10.4337/ejeep.2013.02.00>

This Version is available at:

<https://hdl.handle.net/10419/277264>

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Editorial

The state of economics after the crisis

In this second issue of the *European Journal of Economics and Economic Policies: Intervention (EJEEP)*, the Papers and Proceedings of the Research Network Macroeconomics and Macroeconomic Policies (FMM),¹ we publish some invited papers which were presented at the 17th FMM conference on ‘The State of Economics after the Crisis’. The conference took place in Berlin, 25–27 October 2012.

Since 1996 the FMM has existed as a platform for analysis, research and discussion of macroeconomic issues.² Its members see macroeconomic theory as the basis for policies which aim at high employment, environmentally sustainable growth, price stability, reduced inequality, and the elimination of poverty. In particular, the network seeks to promote an exchange between competing theoretical paradigms. The FMM has organized annual conferences since 1997 and summer schools for graduate students and young researchers on Keynesian macroeconomics and European economic policies since 2008, which then have taken place biennially since 2009.³ Previous conference proceedings were published in special issues of *Intervention: European Journal of Economics and Economic Policies*,⁴ the forerunner of *EJEEP*, and in a book series with Metropolis Publisher.⁵ Starting with this issue, the *EJEEP* Papers and Proceedings of the Research Network Macroeconomics and Macroeconomic Policies (FMM) are meant to replace the annual conference books of the FMM. And, of course, the managing editors of *EJEEP* hope to receive many paper submissions from the FMM conferences for the regular issues of *EJEEP*.

The first contribution to this special issue is by Richard Koo on ‘Balance sheet recession as the other-half of macroeconomics’. Koo argues that the effectiveness of both fiscal and monetary policies are completely reversed in the world we currently live in where the private sector is minimizing debt. This contrasts sharply with the world where the private sector is maximizing profits. For Koo, this suggests that there are actually two phases to macroeconomics: the normal or textbook world and the world of balance sheet recessions.

Achim Truger then develops a critique of fiscal austerity in his article ‘Austerity in the euro area: the sad state of economic policy in Germany and the EU’. He argues that the austerity programmes currently implemented in the euro crisis countries do not only contradict post-Keynesian economic analysis, but also mainstream recommendations. According to him, the tragedy of economic policymaking in Europe is not only that alternative economic approaches are neglected, but that current policies are based on ‘radical and outdated theoretical or purely ideological foundations’.

1. FMM stands for: Forschungsnetzwerk Makroökonomie und Makropolitik.
2. On the history and the activities of the FMM, see Hein/Priewe (2009).
3. For more information about the FMM, please visit: www.network-macroeconomics.org.
4. Back issues of the journal are freely available at: <http://www.elgaronline.com/view/journals/ejeep/ejeep-overview.xml>.
5. For the series of the Research Network Macroeconomics and Macroeconomic Policies (FMM) please visit: <http://www.metropolis-publisher.com/Reihen/Schriftenreihe-Forschungsnetzwerk-Makroökonomie-und-Makropolitik/catalog.do>.

This is followed by a contribution by Catherine Mathieu and Henri Sterdyniak, who ask the question: ‘Can the new French economic policy be successful?’. Their paper describes the strategy of the French government since the election of François Hollande as president and tries to assess its chances of success. According to the authors, in many areas there is a great risk that the announced proactive strategy turns into the acceptance of the constraints imposed by the European institutions and by financial markets.

The next two articles, by Thomas Palley and T.D. Stanley, criticize various tenets of mainstream economics from a theoretical and an empirical viewpoint respectively. Palley’s article, ‘Gattopardo economics: the crisis and the mainstream response of change that keeps things the same’, explains how Gattopardo economics adopts ideas developed by critics of mainstream economics, but in a way that ignores the thrust of the original critique and leaves mainstream analysis unchanged. He applies this idea to the issues of the macroeconomics of income distribution, global financial imbalances, and inflation policy.

The contribution by T.D. Stanley asks ‘Does economics add up?’ in ‘An introduction to meta-regression analysis’. Stanley notes that meta-regression analysis, which is the statistical analysis of an entire research literature, provides a rigorous, objective alternative to conventional narrative reviews in economics. Meta-regression analysis often reveals surprising truths about economics once publication selection and misspecification biases have been identified and accommodated. Stanley concludes that mainstream economists cannot object to an internal evaluation of their research record when it uses the very tools that produced this research record.

Michael Hudson, in his article ‘Capital gains, total returns and saving rates’, starts from the observation that finance capital prefers to hide its role in economic bubbles by depicting itself as part and parcel of industrial capital formation, rather than as inflating asset prices. His contribution thus focuses on the dynamics of how financial wealth is created, obtained and valued. The paper, first, distinguishes capital gains from income by measuring total returns, and, second, contrasts the capitalized value of *rentier* income (rent extraction rights and privileges from land, natural resources and monopolies) with that of industrial profits on tangible capital investment.

The final three articles are contributions to post-Keynesian economics. First, John King asks: ‘Should post-Keynesians make a behavioural turn?’. Starting from the question whether Keynes should be seen as the first behavioural economist, King discusses some recent work in behavioural macroeconomics and sees some important strengths, but also some fundamental weaknesses. After a review of the relationship between post-Keynesian economics and behavioural economics, Old and New, the article concludes by identifying some potential sources of difficulty and also by suggesting some areas of macroeconomics where cooperation between post-Keynesians and behavioural economists seems especially promising.

The contribution by Philip Arestis, ‘Economic theory and policy: a coherent post-Keynesian approach’, sets out to present a coherent new way of thinking about the macroeconomy in terms of both economic theory and economic policies. Regarding economic policy, he concludes that the central bank should focus on financial stability. For fiscal policy in the short term and in the long term, to address demand issues is very important. Fiscal and monetary policies, though, should be coordinated closely. Regional and industrial policies to create the required capacity are important, along with incomes policies, to contain inflationary/deflationary pressures. Finally, according to Arestis, distribution of income and wealth is another important policy dimension in view of its importance for the Great Recession.

The article by Giuseppe Fontana and Malcolm Sawyer outlines an approach to ecological macroeconomics based on post-Keynesian and Kaleckian ideas. It views growth as demand-driven through investment, and focuses on the conflicts between that demand-driven growth rate, the growth of the effective labour force and the 'nature constrained' rate of growth. The paper argues that there will not be 'market forces' which will address those conflicts, and specifically bring growth to an environmentally sustainable growth rate. The policy agenda which is suggested is wide ranging and it calls for appropriate fiscal policy and budget deficits.

We, as the members of the organizing committee of the 2012 FMM conference and the editors of this *EJEEP* issue, would finally like to thank the contributors to this issue for their contributions and cooperation and the participants in the conference for the stimulating discussions. Furthermore, we are most grateful to the Hans Boeckler Foundation for the financial and organizational support for the network and the conference.

Sebastian Dullien, Eckhard Hein and Till van Treeck
Editors

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- Hein, E., Prieue, J. (2009): The Research Network Macroeconomics and Macroeconomic Policies (FMM) – past, present and future, *Intervention: European Journal of Economics and Economic Policies*, 6(2), 166–173.