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The Research Network Macroeconomics and Macroeconomic Policies (FMM)¹ – Past, present and future

Eckhard Hein and Jan Priewe***

Introduction

The Research Network Macroeconomics and Macroeconomic Policies (FMM) has existed since 1996 as a platform for analysis, research and discussion of macroeconomic issues. It is primarily based in Germany, Austria and Switzerland, but it has established close links to similar networks in other countries, particular in Europe. Since its start the FMM has been concerned with promoting the revival and development of macroeconomic approaches, which have tended to be marginalised, especially in Germany, as a result of the dominance of neoclassical, monetarist and supply-side approaches since the 1970s. According to its latest research programme (FMM 2008), the Research Network aims to be both a platform for discussions about economic theory as well as a forum for economic policy debates:

»Macroeconomic theory is seen as the basis for policies which aim at high employment, environmentally sustainable growth, price stability, reduced inequality, and the elimination of poverty.« (FMM 2008: 1)

Organisationally, the Research Network is based at the Macroeconomic Policy Institute (IMK) at Hans Boeckler Foundation, and it is funded by the Hans Boeckler Foundation of the German Trade Union Federation (DGB). The FMM is politically independent. Its activities are directed by a coordinating committee, which has been appointed in accordance with the IMK. Since 1996, the main activities of the FMM have been organising annual conferences, publishing the conference proceedings, and organising working groups and summer schools in order to support young economists. The coordinating committee

¹ FMM stands for: Forschungsnetzwerk Makroökonomie und Makropolitik.

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maintains a web site and a newsletter. The Research Network is not a membership organisation and it is open to anyone who is interested in discussions around the research themes outlined below.

In this paper we will elaborate on the development of the FMM since its inception in 1996 and present the most recent activities. Then we focus on the present research programme in more detail, before we discuss some perspectives of the FMM.²

The period 1996 to 2003: Establishing a German Keynesian network

In the development of the FMM so far, two periods can be distinguished: During the first period from 1996 to 2003 a German network with regular conferences in Berlin was established and consolidated. In a second period from 2004 until present the network has progressively internationalised. In the course of this period the FMM and its conferences have become an integral part of a worldwide network of Keynesian economists and related conferences.

In the mid 1990s the German economy suffered from a recession initiated by the German Bundesbank and propelled by restrictive fiscal policies. There had been a boom in the early 1990s following German unification with falling unemployment, but in the mid 1990s the development of unemployment continued the rising trend which had started in the deep recession in the mid 1970s. Economic policy debates were dominated by supply-side approaches focussing on deregulation of the labour market, wage differentiation and moderation, social benefits cuts, tax cuts for corporations and restrictive fiscal policies as measures to cure unemployment and to stimulate the economy. At German universities non-orthodox approaches were present only in a few places, and it was not clear at all whether even in these places they would be able to survive when the professors hired in the early 1970s – in a period of rapid expansion of universities – would have to be replaced.

Under these conditions, Arne Heise, then a Senior Researcher at the Institute for Economic and Social Research (WSI) at Hans Boeckler Foundation, took the initiative and brought together a group of Keynesian professors and researchers in order to apply to the German Research Foundation (DFG) for funding of a medium-run research focus on ›Alternative Concepts of Macroeconomic Policies under the Conditions of Unemployment, Globalisation and High Public Debt‹. Such a research focus would have allowed to obtain considerable DFG-funding for several macroeconomic research projects for the following years. In late October 1996 around 20 researchers gathered in Duesseldorf and discussed the application and potential research projects which should have been pursued under the umbrella of the research focus. However, it did not come with a big surprise that the DFG dominated by mainstream economists rejected the application in 1997.³ But then the Hans

² The views expressed in what follows are our own and they are not necessarily shared by our colleagues in the coordinating committee of the FMM.

³ The applicants were: Peter Bofinger, Heiner Flassbeck, Helmut Gschwendtner, Arne Heise, Jürgen Kromphardt, Jan Priewe and Claus Thomasberger. A revised version of the application was

Boeckler Foundation stepped in and promised to support future network conferences and publications, however, without being able to fund major research projects on a DFG level. This support has been lasting for more than 13 years now and it has been most important for the establishment and continuous growth of the network, together with the work and enthusiasm of those people organising the network and participating in its activities.

In late October 1997 the first conference of the Research Network took place in Berlin on ›The Renaissance of Macroeconomics‹ with 14 papers being presented and 35 participants discussing the presentations.⁴ Starting with this first conference the conference proceedings have been published with ›Metropolis Publisher Marburg‹. The following conferences ›Perspectives of Macroeconomic Policies between the National State and the European Union‹ in 1998 in Düsseldorf, ›A New Architecture for the International Financial Order‹ in 1999, ›The USA – Deconstruction of an Economic Model‹ in 2000, ›A Different Monetary Policy for More Employment in Europe‹ in 2001, and ›New Keynesianism – the New Economic Policy Mainstream?‹ in 2002, each of them in Berlin, remained modest in the number of presentations (9 – 10 papers each), but the number of participants gradually increased up around 65.⁵ The 2003 conference ›Fiscal Policies in Controversy‹ with 14 papers and around 70 participants marked the end of the first period of establishing and consolidating a German research network focussing on Keynesian macroeconomics in a wider sense.⁶

In this first period an informal coordinating committee of the FMM was set up preparing the annual conferences. For the first years it consisted of Trevor Evans, Michael Heine, Arne Heise, Hansjörg Herr, Jan Prieue and Claus Thomasberger. When Eckhard Hein succeeded Arne Heise as a Senior Researcher at the Institute for Economic Research (WSI) in 2001, he joined the coordinating committee together with Achim Truger, then also at the WSI. In 2003 cooperation with a new academic journal based in Germany and Austria, then named *Intervention. Journal of Economics*, started and part of the conference papers have been published as special issues in this journal on a regular basis since then.

The period of rapid internationalisation since 2004

Although international guests had participated and presented papers in the conferences mentioned so far already, in particular Philip Arestis and Malcolm Sawyer from the UK, Claude Gnos from France, Sergio Rossi from Switzerland and Markus Marterbauer from Austria, it was the conference ›Wages, Distribution and Growth‹ in late October 2004 in Berlin which became the first truly international conference of the FMM. In this conference 28 papers were presented by researchers from eight different countries and were discussed by more than 90 participants.⁷ The major step towards internationalisation, however, was taken in

published as Heise et al. (1998).

4 For the conference proceedings see Heise (1998).

5 For the conference proceedings see Heise (1999, 2001a, 2001b and 2002) and Heise et al. (2003).

6 For the conference proceedings see Hein et al. (2004a and 2004b).

7 For the conference proceedings see Hein et al. (2005 and 2006a).

2005 when the FMM organised a joint conference in cooperation with the Post Keynesian Economics Study Group (PKESG, UK) and the Association pour le Développement des Etudes Keynesiennes (ADEK, France) on ›Macroeconomics and Macroeconomic Policies – Alternatives to the Orthodoxy‹ in Berlin with 72 papers from 16 countries and around 150 participants.⁸ The following conferences ›European Integration in Crisis‹ in 2006 (50 papers from 15 countries, 100 participants),⁹ and, in particular, ›Finance-led Capitalism? Macroeconomic Effects of Changes in the Financial Sector‹ in 2007 (86 papers from 15 countries, 200 participants),¹⁰ and ›Macroeconomic Policies on Shaky Foundations – Whither Mainstream Economics?‹ in 2008 (81 papers from 15 countries, 200 participants),¹¹ managed to maintain this high level of internationalisation. Currently the Research Network is organising its 13th conference which will be on ›The World Economy in Crisis – The Return of Keynesianism?‹ in late October 2009 in Berlin.

On top of the annual conferences, two working groups of the FMM were formed in 2004 in order to meet more frequently and to work on specific issues. Whereas the working group on ›Keynesian Economic Theory‹ was only short-lived, the working group on ›European Economic Policies‹ met several times over a period of two years and discussed major problems of European macroeconomic policy coordination. The activities of the working group led to an international (Austrian/German) conference on ›The End of Stagnation? Economic Policy Perspectives for more Growth and Employment in Europe‹ which took place in Vienna in December 2006.¹²

Since supporting graduate students and junior researchers has become a major goal of the FMM, graduate student sessions have been part of the annual conferences since 2006. In August 2008 the first international Summer School on ›Keynesian Economics and European Economic Policies‹ took place in Berlin with 55 participants from 17 countries. The second Summer School in August 2009.

In 2007 some change in the coordinating committee of the FMM took place. Michael Heine and Arne Heise decided to leave the committee for different personal reasons and they were replaced by Jochen Hartwig, Peter Spahn and Engelbert Stockhammer. During the period of rapid internationalisation of the FMM, cooperation with *Intervention. European Journal of Economics and Economic Policies* has been strengthened, because Torsten Niechoj, one of the founding managing editors of the journal, joined the coordination committee of the FMM in 2007, too.¹³ In the course of 2009, Camille Logeay, Özlem Onaran and Till van Treeck have also become members of the coordinating committee.

8 For the conference proceedings see Arestis et al. (2007), Fontana et al. (2006), Hein et al. (2006b) and Hein/Truger (2007a).

9 For the conference proceedings see Hein et al. (2007) and Hein/Truger (2007b).

10 For the conference proceedings see Hein et al. (2008a) and Hein et al. (2008b).

11 For the conference proceedings see Hein et al. (2009a) and Hein et al. (2009b).

12 For the conference proceedings see Chaloupek et al. (2007).

13 Eckhard Hein and Achim Truger from the coordination committee of the FMM also became managing co-editors of the journal.

Further on, cooperation with ›Metropolis Publisher Marburg‹ has developed. Whereas in the past the conference books of the FMM appeared as single volumes with Metropolis and other publishers, in 2009 Metropolis established a formal *Series of the Research Network Macroeconomics and Macroeconomic Policies (FMM)* which is edited by Eckhard Hein, Torsten Niechoj and Engelbert Stockhammer. In this series the proceedings of the Network's annual conference as well as books within the fields of the research programme of the Network will be published. The editors explicitly welcome the submission of book manuscripts.

The research programme

The research programme of the FMM, formulated in early 2008, starts with the observation that in a period of rapid globalisation, unemployment and poverty in various countries, on the one hand, and major imbalances in the world economy, rapid growth in the financial sector and financial fragility, on the other hand, there remain major problems to be solved. The mainstream approach, focussing on ›structural reforms‹ (deregulation, flexibilisation of the labour market, privatisation, etc.) in order to reduce unemployment has failed, in particular in Germany. The reason for this is that the role of macroeconomic policy in promoting demand and growth has been disregarded.

Although there has been some development in economic theory since the dominance of the New Classical and the Real Business Cycle School, the New Keynesian economics and the New Consensus model prevailing today also carry a whole lot of problems. In particular, a general equilibrium model with so-called rational expectations is still widely considered as basic reference and its role is not seriously questioned. Keynes's plea for a ›monetary theory of production‹ in which money and monetary policy have an influence on output, growth and distribution, both in the short and the long term, is not taken seriously in the New Keynesian approach, too.

The FMM is therefore concerned to contribute to the development of theoretical and political alternatives. A major focus of the Network's theoretical interest lies in the writings of Keynes, and its development by modern Post-Keynesians, and also some New Keynesians. Institutional, evolutionary, game-theoretic and political economy approaches are also seen as valuable for developing macroeconomic research. In this attempt, macroeconomics has to be more than simply adding up microeconomic outcomes, as in the now prevailing representative agent, dynamic stochastic general equilibrium (DSGE) models. Output and employment are seen as macroeconomic variables, determined by aggregate demand in the goods market. In modern market economies the demand constraint usually bites before capacity and supply constraints come into play. Money is not neutral, neither in the short nor in the long run. Uncertainty and institutions constraining uncertainty are of major macroeconomic importance. Macroeconomic policies are thus important, in the short and the long run, and they affect both the demand and the supply side of the economy. Based on this briefly sketched analysis, the FMM attempts to promote research in the following areas: macroeconomic theory, unemployment, distribution of income, monetary theory and monetary policy, macroeconomics and the financial sector, European integration, glo-

balisation and international imbalances, macroeconomic policy regimes prevailing in different countries, macroeconomic problems of less developed countries, and macroeconomics and ecological problems.

Perspectives of the FMM

The FMM was founded in the mid 1990s to resuscitate and stabilise Keynesian macroeconomic research in Germany and to catch up with international debates, on the one hand, and to develop alternatives to the then prevailing supply-side economic policies in this country, on the other hand. Both these objectives have been – by and large – accomplished over the last 13 years. Recently the network has also been successful in attracting graduate students and young researchers. However, it has clearly not yet been successful in re-establishing Keynesian macroeconomics at German universities and major research institutes. These institutions are still – or even more than in the past – dominated by mainstream neo-classical supply side approaches, and Keynesian research is still marginalised, with a few exceptions.

Notwithstanding, in the face of the unexpected global crisis and the not well understood interactions of financial sector developments and macroeconomic performance, even in Germany macroeconomics seems to be reconsidered as important. There seems to be a growing common perception that macroeconomics is simply underdeveloped at German universities and hardly present in international debates (Solow 2007). Despite the new interest in macroeconomics, however, a sceptical view should be taken regarding macroeconomic policies. On the one hand, fiscal stimulus packages have been set up, even in Germany, which were inconceivable several months ago. But on the other hand, a 'debt brake' has been institutionalised in Germany recently which obviously lacks basic insights into the macroeconomic circuit and which will be harmful for future macroeconomic development. Furthermore, European integration is about to fall into stagnation or even crisis, the Euro area is under stress of disintegration and structural divergences, and there is a clear lack of a macroeconomic vision for an enlarged European Union. All this gives plenty of opportunities for the FMM to develop and offer alternative economic policy concepts.

Until now the FMM has not been able to conduct major joint research projects beyond individual cooperation. The FMM and its conferences have mainly been a 'marketplace' for research output and ideas within the Keynesian paradigm so far, rather than an active promoter and producer of joint research output. Therefore, in the medium term ahead, the FMM should, on the one hand, consolidate its level of activities (international conferences, publications), and strengthen its focus on attracting graduate students (summer schools, graduate student sessions) and on deepening international cooperation. On the other hand, however, it should also attempt to intensify joint research and to set up continuously working study groups on focussed areas of research, integrating the younger generation of Keynesian economists, in particular.

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