

Gechert, Sebastian; Truger, Achim; van Treeck, Till; Watt, Andrew

Article

Editorial

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

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Gechert, Sebastian; Truger, Achim; van Treeck, Till; Watt, Andrew (2015) : Editorial, European Journal of Economics and Economic Policies: Intervention (EJEEP), ISSN 2052-7772, Edward Elgar Publishing, Cheltenham, Vol. 12, Iss. 2, pp. 143-146, <https://doi.org/10.4337/ejeep.2015.02.00>

This Version is available at:

<https://hdl.handle.net/10419/277324>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<https://creativecommons.org/licenses/by/4.0/>

Editorial

Inequality and the future of capitalism

As last year, the second issue of the *European Journal of Economics and Economic Policies: Intervention (EJEEP)* in 2015 is devoted to the Papers and Proceedings of the Research Network Macroeconomics and Macroeconomic Policies (FMM). The 18th annual FMM conference on ‘Inequality and the future of capitalism’ took place in Berlin, Germany, from 30 October to 1 November 2014.

With the exception of the articles by John McCombie and by Miriam Rehm and Matthias Schnetzer, all of the contributions to this volume are based on the interventions made during the three plenary sessions of the 2014 FMM conference.¹ All of the contributions are preoccupied with at least one and in most cases both of the ‘mega-topics’ of present-day economics. First, rising inequality and its economic and social impact, as well as political strategies to reduce inequalities and overcome economic stagnation. Addressed here are the role of inequality as a root cause of the financial crisis and the question of whether there is a trade-off between equality, redistribution and growth. Recent decades have seen a deregulation of labour markets, financial markets and a strong tendency towards lower taxation of high incomes, wealth and profits, for the alleged sake of lower structural unemployment. But have these gains materialised or has this only led to a race to the bottom among countries, leading to growing inequality? What can be done politically to reverse those trends?

Second, what lessons have and should be drawn from the economic crisis for economics in general and teaching economics in particular? This concerns the overdue reform of the economics curriculum and the call for a more pluralistic approach in economic research and teaching in particular. Should there be a more problem-oriented instead of an axiomatic approach to economics? How could students be exposed to different schools of thought without losing coherence? What can we learn from historic paradigm changes and what should we avoid learning from them?

In the first article of the volume, ‘Inequality and the duration of growth’, Jonathan D. Ostry argues that the relationship between income inequality and economic growth is complex. On the one hand some inequality is integral to the effective functioning of a market economy and the incentives needed for investment and growth, but, on the other hand, inequality could also be destructive to growth, for example by amplifying the risk of crisis or making it difficult for the poor to invest in education. Empirically, the author finds that the duration of growth spells is robustly associated with more equality in the income distribution. Inequality matters, moreover, even when other determinants of growth duration – external shocks, initial income, institutional quality, openness to trade, and macroeconomic stability – are taken into account. Redistributive policies need not harm and may actually foster growth.

1. Videos of the presentations can be found at: https://www.youtube.com/playlist?list=PLRIU-ZP0fg51_EDjygO4zBoHNmR9ZdoIH. A substantial number of the papers given at workshops during the conference can be downloaded from: http://www.boeckler.de/35330_51577.htm.

Till van Treeck, in his article 'Inequality, the crisis, and stagnation', focuses on the macroeconomic implications of inequality. He identifies four themes on which there seems to be growing consensus among economists, especially in the various heterodox traditions, but also increasingly in the mainstream of the economics profession. First, the notion that the rise in inequality has contributed in an important way to the unsustainable rise in household debt in the United States and ultimately the financial and economic crisis starting in 2007. Second, the view that rising inequality at the international level has contributed to global imbalances (widening current-account divergences). Third, a shift of the focus of attention from merely looking at income inequality to analysing the longer-term implications of income inequality for wealth inequality; and fourth, the argument that a high level of inequality can be a cause of low economic growth, or even secular stagnation. The author gives a broad and non-technical overview on how all of these issues can be seen to be linked.

In their article 'Rising inequality and stagnation in the US economy', Barry Z. Cynamon and Steven M. Fazzari focus on an important dimension of rising inequality and its effects on demand generation. They argue that economic models going back at least to Kalecki had explored the demand drag caused when a greater share of aggregate income accrues to groups that spend a smaller proportion of their income. They conclude that rising inequality did indeed play a central role in the financial dynamics of the household sector that led up to the Great Recession. They also argue that historically elevated income inequality helps to explain the remarkably slow recovery of consumer spending since the trough of the recession. They argue that rising income inequality is now a significant barrier to economic growth and full employment in the US economy. Because the US is an important engine of the global economic system, along with the fact that there are parallel phenomena operating in other mature economies, the perspective presented here is also relevant for much of the developed world outside the US.

Heather Boushey reflects on whether and how today's high economic inequality – along all axes, not just income – affects economic growth and stability, in her contribution 'Bringing inequality back in'. She investigates how economic research can inform the debate on the relationship between inequality and growth. First, she defines the relationship between inequality and growth and briefly reviews the literature on their relationship. After outlining the channels through which inequality may affect growth, she addresses possible avenues for public policy going forward. In her view, far more research is needed to unpack the complex issues related to inequality and growth in order to understand the prospects for more inclusive growth.

The question of whether individual earnings and household incomes are mutually reinforcing inequalities is addressed in Wiemer Salverda's contribution. He complements the usual analyses, which focus on the very top of the income or wealth distribution, with a study of the broader top 10 per cent in which labour-market outcomes play a predominant role. Moreover, the analysis still needs to come to terms with the death of the single-breadwinner model and its increasing replacement with two or more earners in the household. At the same time this brings in the (household distribution of) hours of work as an important new dimension of inequality, in addition to the traditional wage levels. It is shown, using data for 26 EU countries, that these changes complicate the linkages of wage inequality and income inequality and add to the importance of employee earnings for income inequality. The author also discusses some implications for analysis and policy.

Miriam Rehm and Matthias Schnetzer, in their article 'Property and power: lessons from Piketty and new insights from the HFCS', argue that the cumulative causation processes between wealth and power risk leading to an escalation of wealth inequality.

Piketty's historical description of this development based on administrative data for individual countries is corroborated with new survey data for the eurozone, the HFCS. This survey confirms that wealth is extremely unequally distributed in the eurozone – much more so than income. Furthermore, they provide a multi-faceted picture of the wealth distribution in Europe using the socioeconomic characteristics available in the HFCS, showing that inheritances are the single most important factor for wealth inequality. The structural power to shape economic and political institutions is thus ever more concentrated. Finally, they discuss three channels through which the unequal distribution of private assets may affect power relations and economic activity.

In his contribution 'Teaching monetary theory and monetary policy implementation after the crisis', Marc Lavoie briefly discusses the precarious state of heterodox economics in the profession, and also how monetary economics is being taught at the introductory level in economics textbooks. With respect to the state of the economics profession, as he sees it, the problem is not that neoclassical economists did not forecast the sub-prime crisis. The problem, instead, is that in the advanced textbooks one finds an extraordinary number of totally unrealistic assumptions, which are claimed to be simplifications or abstractions, when actually they apply to a totally imaginary world – a fantasy world – which has no relationship whatsoever with the world in which we live. With respect to the teaching of monetary economics he points out that the completely unrealistic concept of the money multiplier is still being used in mainstream – and even in some heterodox – textbooks.

The title of David Colander's article also hints to its conclusion: 'Why economics textbooks should, but don't, and won't, change'. He argues that economics has not changed in any fundamental way since the financial crisis, and that it shows little likelihood of change. In response to the crisis, there have been some slight adjustments to the scientific model, and to the texts. His proposal is that one should try to push the 15 per cent limit that publishers allow in mainstream texts in order to encourage evolutionary change. Once one starts thinking of the economy as a complex evolving system, one also starts thinking about economic policy differently. Current models lead us to think of economic policy narrowly. Thinking of the economy as a complex evolving system leads to policy being thought of in a much broader context.

'New macroeconomics teaching for a new era: instability, inequality, and environment' is the title of Jonathan M. Harris's contribution. He argues that – given the challenges our economies and societies are facing – the economics profession has not covered itself with glory either in its failure to anticipate the crisis, or in its response to the new situation. While there had been some effort to adapt theoretical perspectives, and some grudging acceptance of the kinds of policies which, prior to the crisis, would have been regarded as outdated Keynesianism, there has been little real change either in mainstream economic theories or in standard economics texts. According to the author, this poses a problem for instructors in economics. How can economics teaching reflect current realities in a way that will be both instructive and interesting to students? While textbooks should not prescribe specific policies, they should make it clear to students that a much wider range of activist fiscal, monetary, and regulatory policies exist than are implied by the narrow, New Classical-biased models that dominate existing texts.

In his review of Marc Lavoie's book, *Post-Keynesian Economics: New Foundations*, John McCombie ranges a little more widely than is usual in a book review to reflect on the state and future of post-Keynesian economics. With respect to Marc Lavoie's textbook his conclusion is that it is a book every economist should have on his or her shelf, placed within easy reach. However, he also argues that the textbook is for advanced students and that a suitable introductory post-Keynesian textbook for undergraduate students is still missing.

With respect to the future perspectives of post-Keynesian economics the author is rather pessimistic given the predominance of neoclassical departments and journals that set the framework within which younger economists take their early career decisions.

Sebastian Gechert
Macroeconomic Policy Institute, Hans Böckler Foundation, Düsseldorf, Germany

Achim Truger
Berlin School of Economics and Law, Germany

Till van Treeck
University of Duisburg-Essen, Germany

Andrew Watt
Macroeconomic Policy Institute, Hans Böckler Foundation, Düsseldorf, Germany