

# How to engage with the global crisis: The shape of jazz to come

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Ornette Coleman, 1930-2015

# Map

1. How to engage with the challenge of global crisis
2. Neoliberal era: ways of seeing
3. The shape of jazz to come

**THE  
SHAPE OF  
JAZZ TO  
COME**

**ORNETTE COLEMAN**



# 1. How to engage with challenge of the global crisis

- On 'home bias' in economists' thinking
- What is missing?
- What is heterodoxy in economics?
- What role is there for interdisciplinarity?



# 1. How to engage with challenge of the global crisis

## **On 'home bias' in economists' thinking:**

*Power Rules*, Dani Rodrik (Oxford University Press, 2015) [blurb]

“The economics profession has become a favourite punching bag in the aftermath of the global financial crisis. Economists are widely reviled and their influence derided by the general public. Yet their services have never been in greater demand. To unravel the paradox, we need to understand both the strengths and weaknesses of economics.

“Dani Rodrik argues that the multiplicity of theoretical frameworks - what economists call 'models' that exist side by side is economics' great strength. Economists are trained to hold diverse, possibly contradictory models of the world in their minds. This is what allows them, when they do their job right, to comprehend the world, make useful suggestions for improving it, and to advance their stock of knowledge over time. In short, it is what makes economics a 'science' a different kind of science from physics or some other natural sciences, but a science nonetheless.

... [blurb] *Power Rules*, Dani Rodrik (OUP, 2015)

“But syncretism is not a comfortable state of mind, and economists often jettison it for misplaced confidence and arrogance, especially when they confront questions of public policy. Economists are prone to fads and fashions, and behave too often as if their discipline is about the search for *the* model that works always and everywhere, rather than a portfolio of models. Their training lets them down when it comes to navigating among diverse models and figuring out which one applies where. Ideology and political preferences frequently substitute for analysis in choosing among models.

“So the book offers both a defence and critique of economics. Economists' way of thinking about social phenomena has great advantages. But the flexible, contextual nature of economics is also its Achilles' heel in the hands of clumsy practitioners.”

# “Economists vs. Economics,” Dani Rodrik

## Project Syndicate, 10/9/2015

“Ever since the late nineteenth century, when economics .. developed scientific pretensions, its practitioners have been accused of a variety of sins. ... hubris, neglect of social goals beyond incomes, excessive attention to formal techniques, and failure to predict major ... financial crises – have usually come from outsiders, or from a heterodox fringe. But lately it seems that even the field’s leaders are unhappy.

Paul Krugman ... [has been] slamming the latest generation of models in macroeconomics for neglecting old-fashioned Keynesian truths. Paul Romer has accused leading names ... of “mathiness” – using math to obfuscate rather than clarify.

Richard Thaler, a distinguished behavioral economist at the University of Chicago, has taken the profession to task for ignoring real-world behavior in favor of models that assume people are rational optimizers. And finance professor Luigi Zingales, also at the University of Chicago, has charged that his fellow finance specialists have led society astray by overstating the benefits produced by the financial industry....



# “Economists vs. Economics,” Dani Rodrik

## Project Syndicate, 10/9/2015

“...Borges’s point still eludes many social scientists today: understanding requires simplification. The best way to respond to the complexity of social life is not to devise ever-more elaborate models, but to learn how different causal mechanisms work, one at a time, and then figure out which ones are most relevant in a particular setting. ...

Navigating among economic models – choosing which one will work better – is considerably more difficult than choosing the right map. Practitioners use a variety of formal and informal empirical methods with varying skill. And, in my forthcoming book *Economics Rules*, I criticize economics training for not properly equipping students for the empirical diagnostics that the discipline requires.

But the profession’s internal critics are wrong to claim that the discipline has gone wrong because economists have yet to reach consensus on the “correct” models (their preferred ones of course). Let us cherish economics in all its diversity – rational and behavioral, Keynesian and Classical, first-best and second-best, orthodox and heterodox – and devote our energy to becoming wiser at picking which framework to apply when.”

*A Challenge magazine interview with Charles Kindleberger (“Crashes, Crises, and Moral Capital”), published July 1, 1991, concluded with the following question-and-answer sequence:*

- *Q: “What is your closing advice?”*
- *A: “An MIT physicist, Robley Evans, has promulgated a carefully worded law: ‘Everything is more complicated than most people think.’ Should one be a monetarist or a Keynesian? A good economist, like Adam Smith, was both, each under appropriate circumstances.”*

# Intellectual Incest on the Charles: Why Economists are a little bit off

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The economists who make up the mainstream economics profession are super bright, highly intelligent, technically sophisticated, conscientious individuals. But to many outside observers they are just a little bit off — it's hard to capture precisely what is off, but something is. What's off changes. Twenty years ago it was an overemphasis on theory — leaving an AEA Commission to worry that the profession was creating “idiot savants.” Today, that isn't the problem. The earlier problem of doing theory for theory's sake has been resolved as young mainstream economists have turned more to empirical work, applying economic models to real world issues. That's all for the good. With the introduction of behavioral economics, modern economics has integrated a much better sense of how real world people act into its models. But still, when one looks at the mainstream profession as a whole it is hard to avoid the sense that there's still something just a bit off. What's now off is the profession's tendency toward fads, and its episodes of lack of judgment, especially when it comes to relating their formal models to policy issues. Somehow too many young economists seem to lack the maturity that Thiel said was required “to realize that models are to be used but not to be believed.”

## INCEST AND ECONOMICS

I could go on, but my goal in this paper is not to argue that modern mainstream economics is just a little bit off, but rather to tentatively accept that it is, and offer a reason why. That reason is intellectual incest. Modern mainstream economics is a bit off as a result of too much inbreeding. Specifically, my argument is that the gene pool of economists in the replicator dynamics of the profession is too small to prevent undesirable recessive traits from showing up in mainstream economists from time to time.

Let me start by considering how big the economic intellectual gene pool is. Each year about 25 newly minted Ph.D. economists have a shot at making the top echelons of the economics profession. There are probably another 50 or so graduates who have a small shot at making it. So the intellectual genealogy of these 75 economists a year is central to understanding the profession, and its foibles. That elite group determines the future direction of the profession, just as the monarchies of old did. These elite are the super peers; they set the agenda, and provide the role models for the others.

The problem is, like monarchies of old, there's a lot of inbreeding that has reduced the intellectual gene pool of this group to a size that cannot avoid serious inbreeding.

... Modern macro followed Solow on the focus on formal modeling, but not on the judgment about use of models. The result was modern macro. ...

it is not at all strange that a few recessive traits pop up now and again, and that modern mainstream economists are sometimes a bit off. What is strange is that they are as sensible as they are.

# 1. How to engage with challenge of the global crisis

## What is missing?

- At the core of economics, the absence of explicit attention to the continued centrality of the problem of value and distribution.
  - Eg, Dick Bryan's discussion of the value basis of securitization processes
- Why? A pre-commitment to Walrasian general equilibrium (WGE) as *the* reference point for “deciding which framework to apply when.”
- “Understanding” a model – Occam's razor criterion – means, making as few deviations from WGE as possible.
- Modeling: what is the relevant deviation? Missing information? Transaction costs? Principal-agent problems?

*What's so funny about value and distribution?* (apologies to Elvis Costello)



# 1. How to engage with challenge of the global crisis

## **What is missing?**

- Power - ability to exit, right to 'voice' (Hirschman)
  - 'global factory' – migrant labor (voiceless) or footloose capital ('race to bottom' wage offers)
- Uncertainty – everything doesn't happen at once, and future events are unknowable
  - Long-term investment vs. 'liquidity preference' (flexibility)
  - Differentiating asset bubbles from secular trends (urban housing)
- Precarity – degree of exposure to equity loss, asset-stripping
  - fragility of continued existence
  - financial instability, aggregate demand shortfall
- Space – everything doesn't happen in the same place, borders matter

# 1. How to engage with challenge of the global crisis

## What is missing?

- Inequality?
- Can we talk about inequality without getting to fundamental questions of value and distribution? Yes, we can... but there are things to be talked about and things that are “off the map.”
- This is a problem for dialogues between heterodox and mainstream economics.
- It is also a problem for building bridges between heterodox economics and, say, geography and regional studies.
- Some examples from a systematic ‘topic’ word search using the *Web of Science*, for subsets of representative journals, 1981-15.

# Journals included in Web of Science "topic word" searches

## Heterodox Economics journals

- *JPKE*
- *Cambridge Journal of Economics*
- *Review of Radical Political Economics*
- *Journal of Economic Issues*

## Mainstream field journals

- *Journal of Monetary Economics*
- *Journal of Urban Economics*
- *Journal of Housing Economics*

## Mainstream general journals

- *American Economic Review*
- *Economic Journal*
- *Journal of Finance*

## Regional studies

- *Regional Studies*
- *Regional Science and Urban Economics*

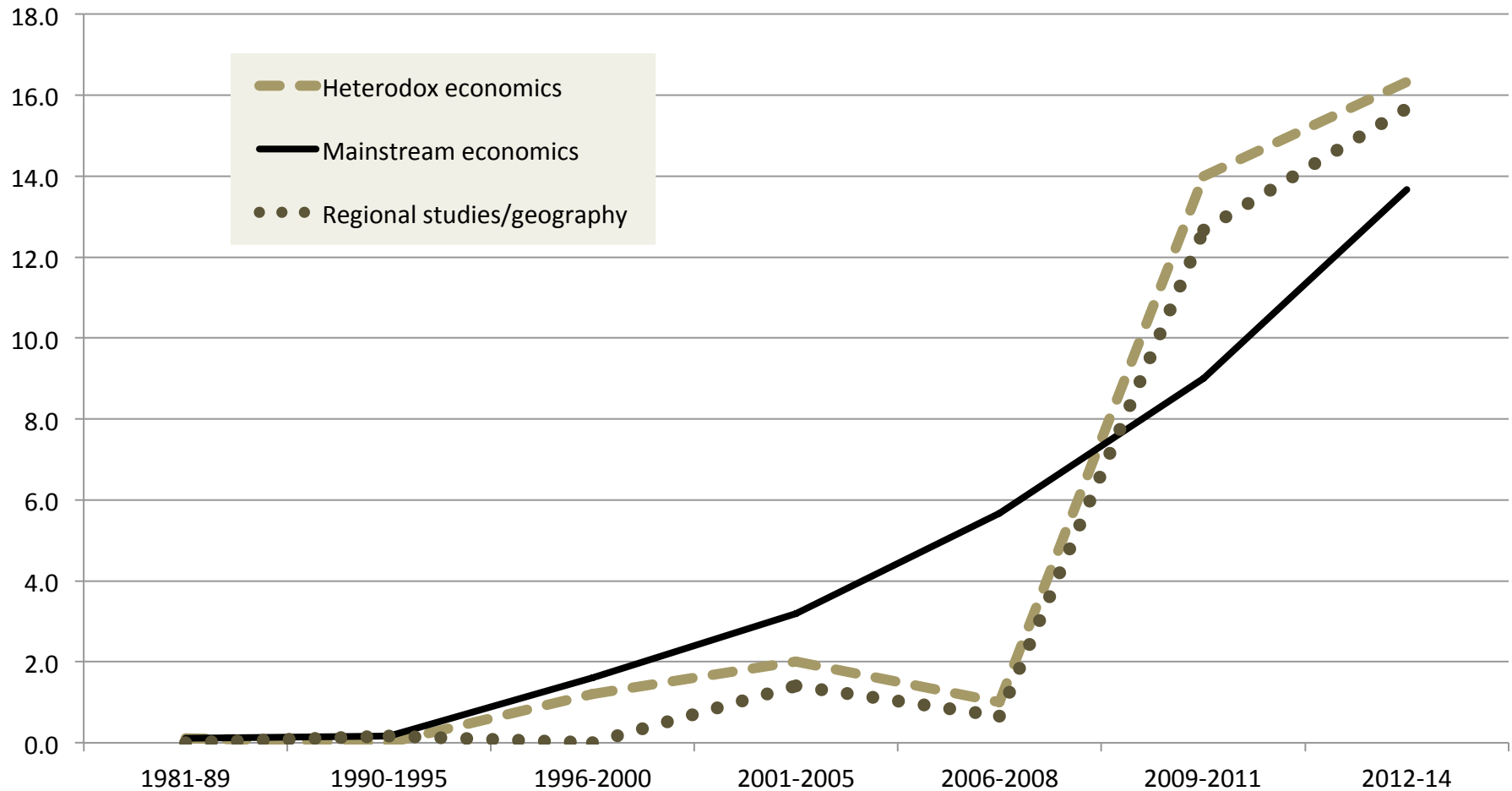
## Geography

- *Economic Geography*
- *Journal of Econ Geography*
- *Environment and Planning – A*
- *Annals of Assn of Amer. Geographers*
- *Transactions of Inst of Brit. Geographers*
- *Geoforum*
- *Antipode*
- *Area*

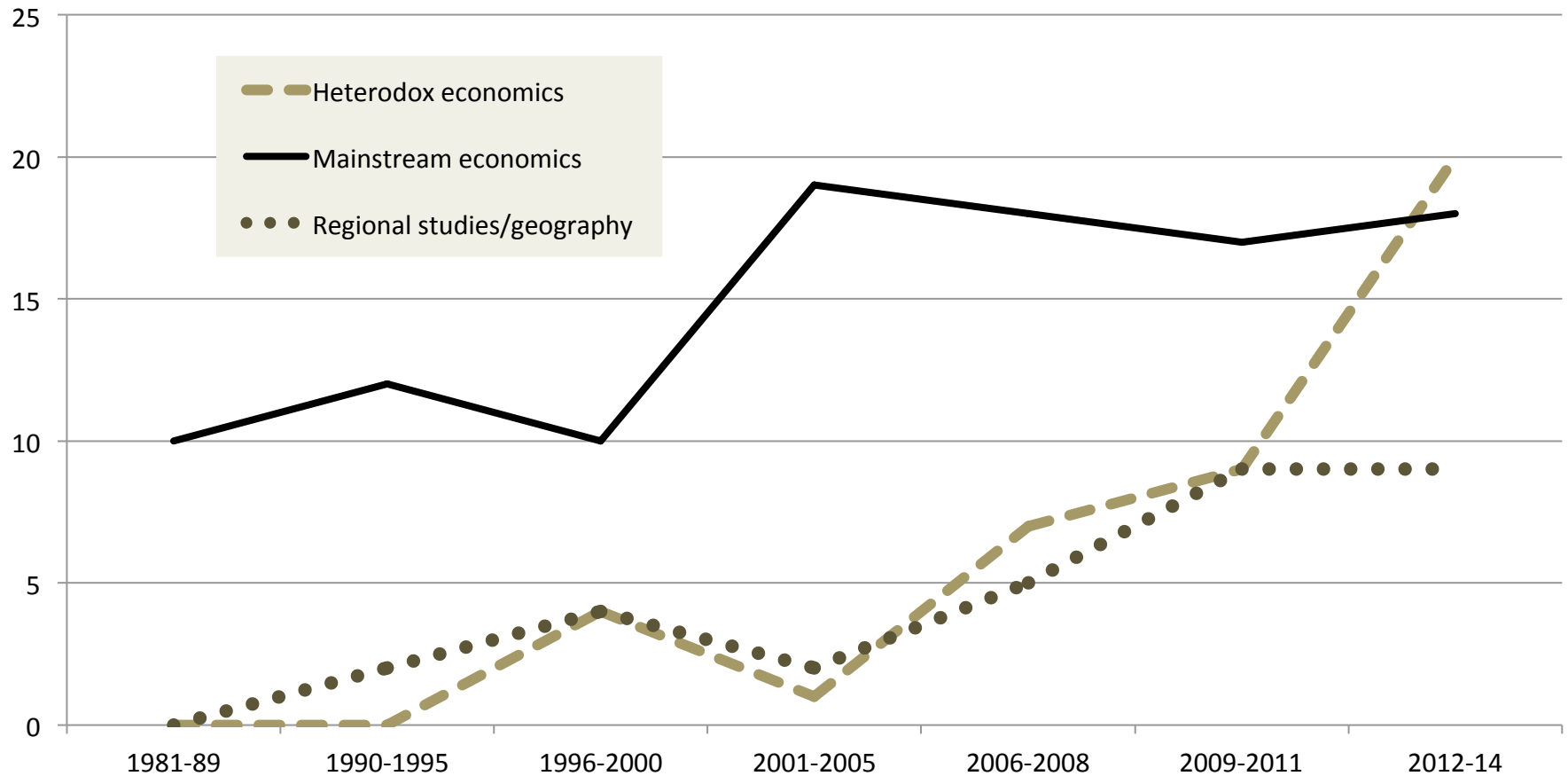
## Urban Geography-Regional Studies

- *Intl Journal of Urban & Regional Res*
- *CJRES*
- *Urban Geography*

**Figure 4: "Financial crisis" or "financial crises" as topic words in Web of Science, annual averages in selected journals, 1981-2014**



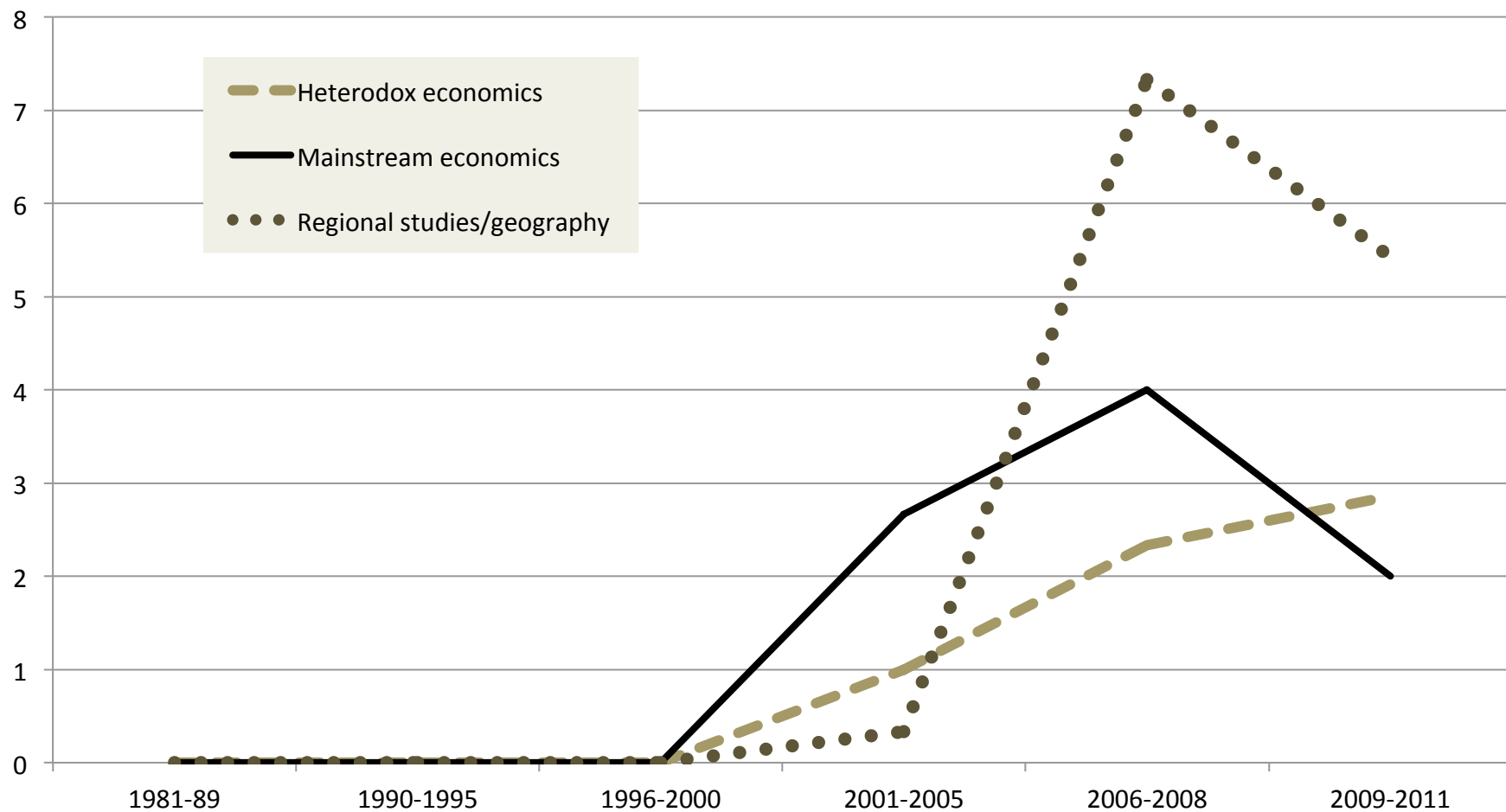
**Figure 1: "Bubble" or "bubbles" as topic words in Web of Science, selected journals, 1981-2014**



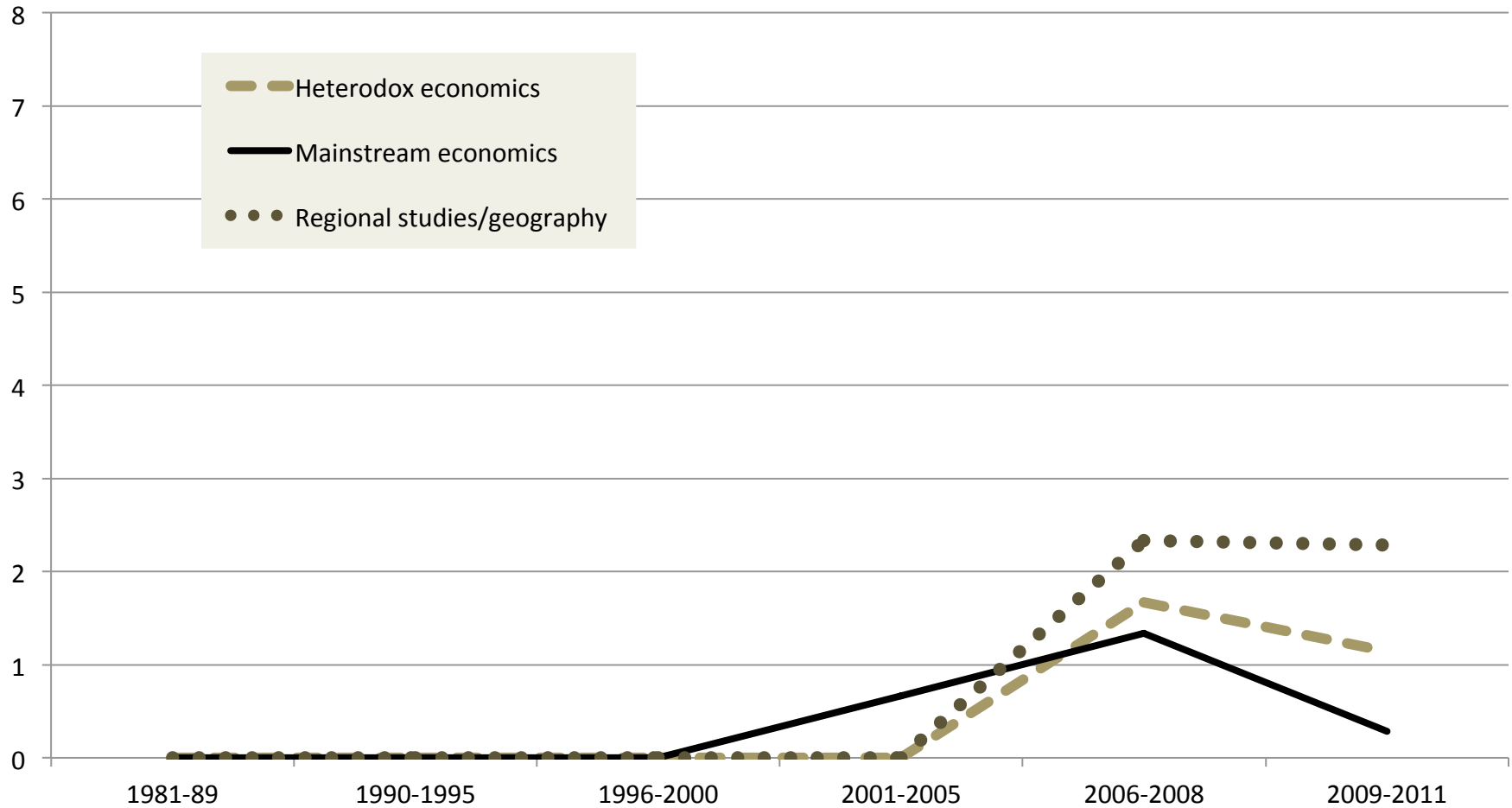
See footnotes 1 and 2 for a list of journals included in these topic-word counts. Year of publication is recorded for all data shown.



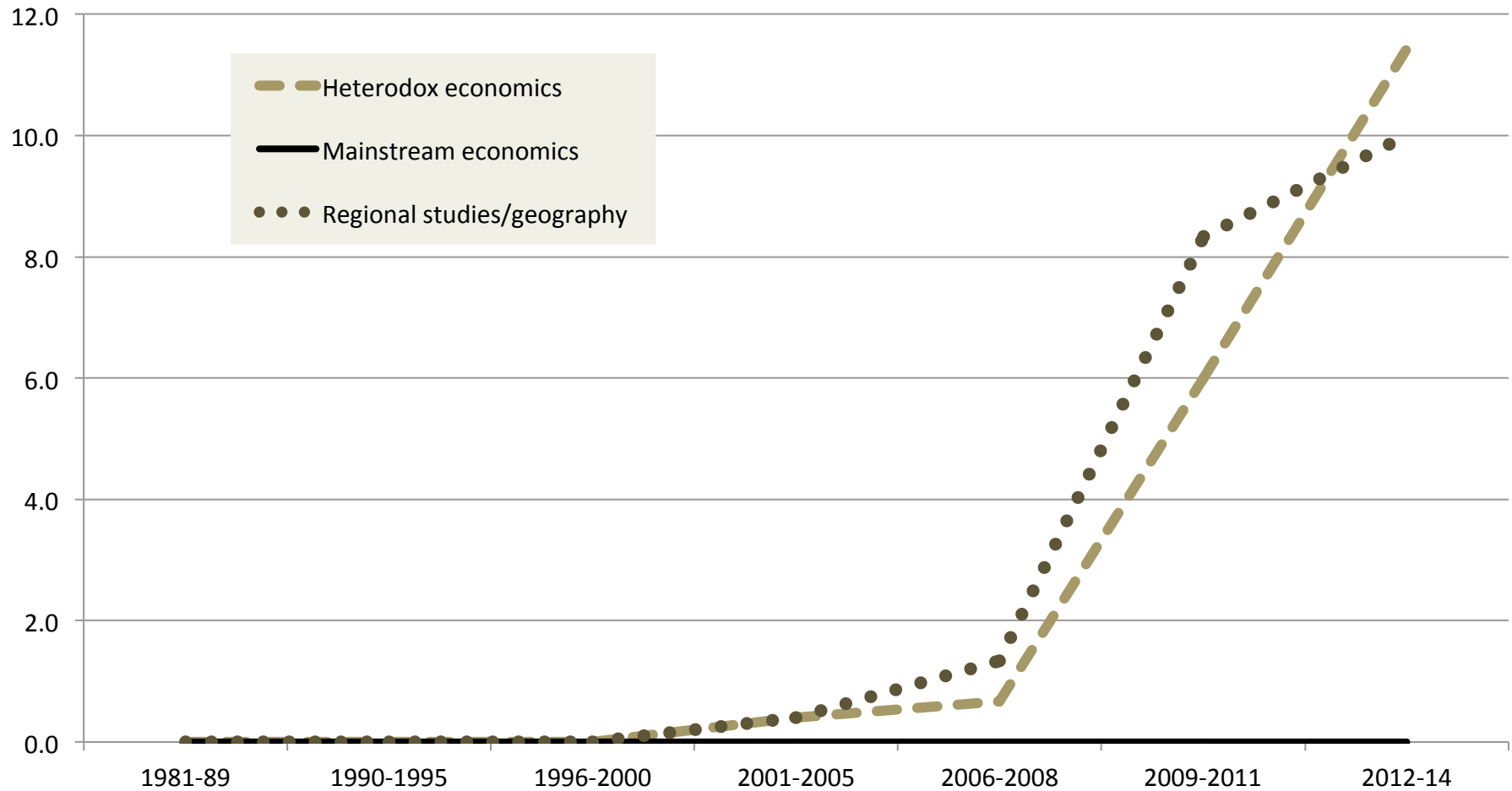
**Figure 5: "Subprime" or "sub-prime" as topic words in Web of Science, annual averages, selected journals, 1981-2015**



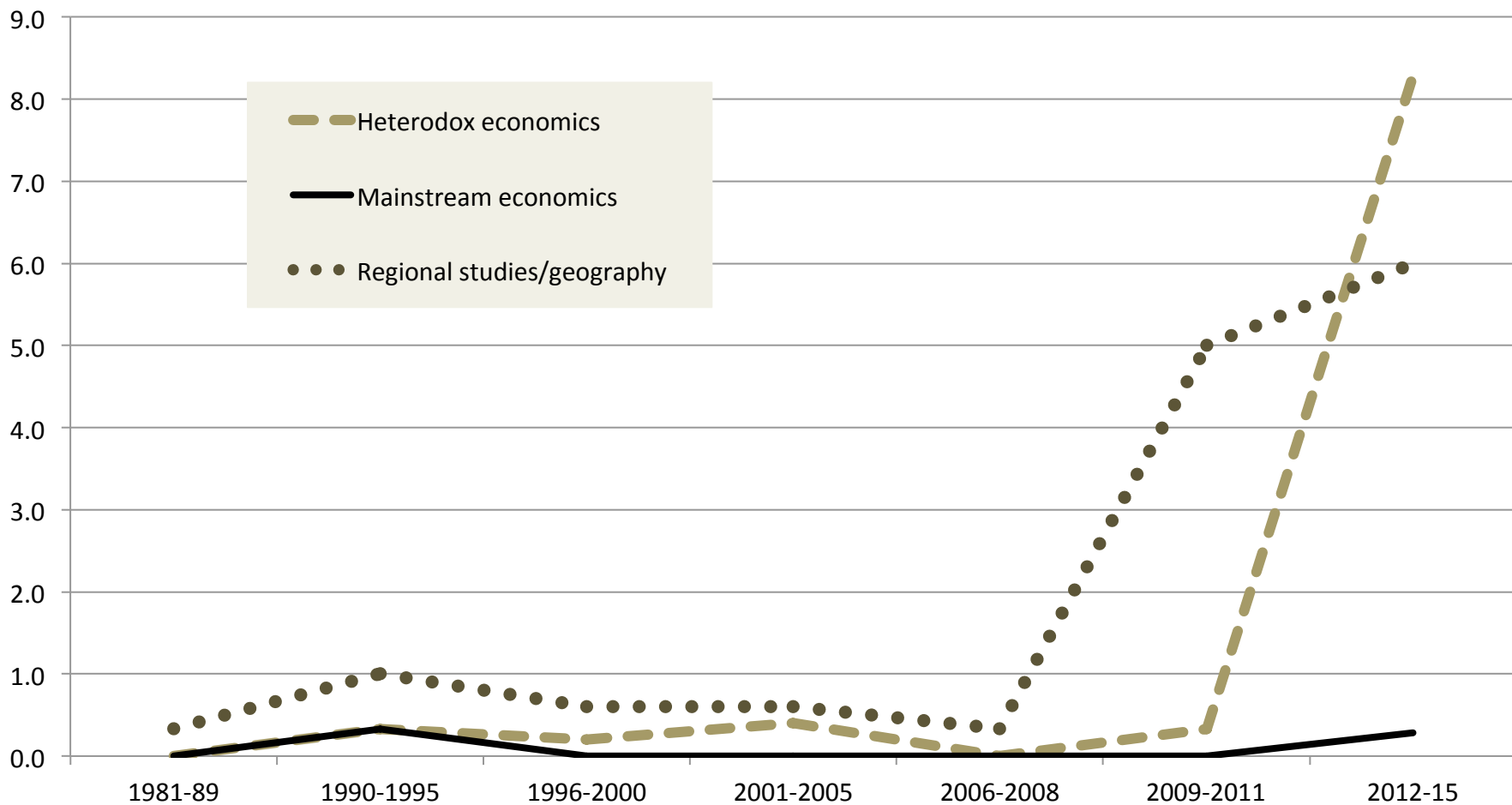
**Figure 5: "Subprime crisis" or "sub-prime crisis" as topic words in Web of Science, annual averages, selected journals, 1981-2015**



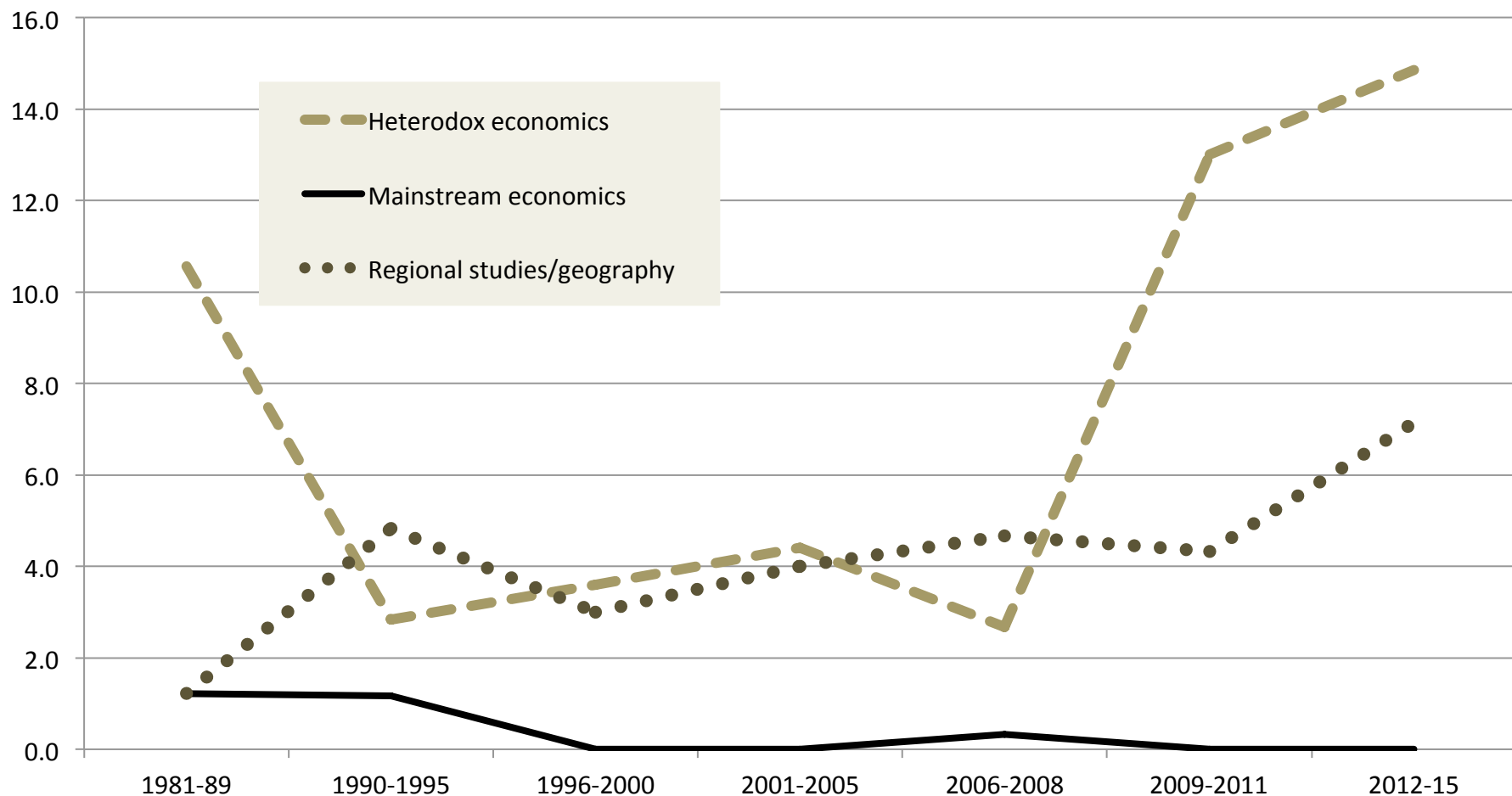
**Figure 5: "Financialization" or "financialisation" as topic words in Web of Science, average uses in selected journals, 1981-2014**



**Figure 5: "Austerity" as topic word in Web of Science, selected journals, annual averages, 1981-2015**

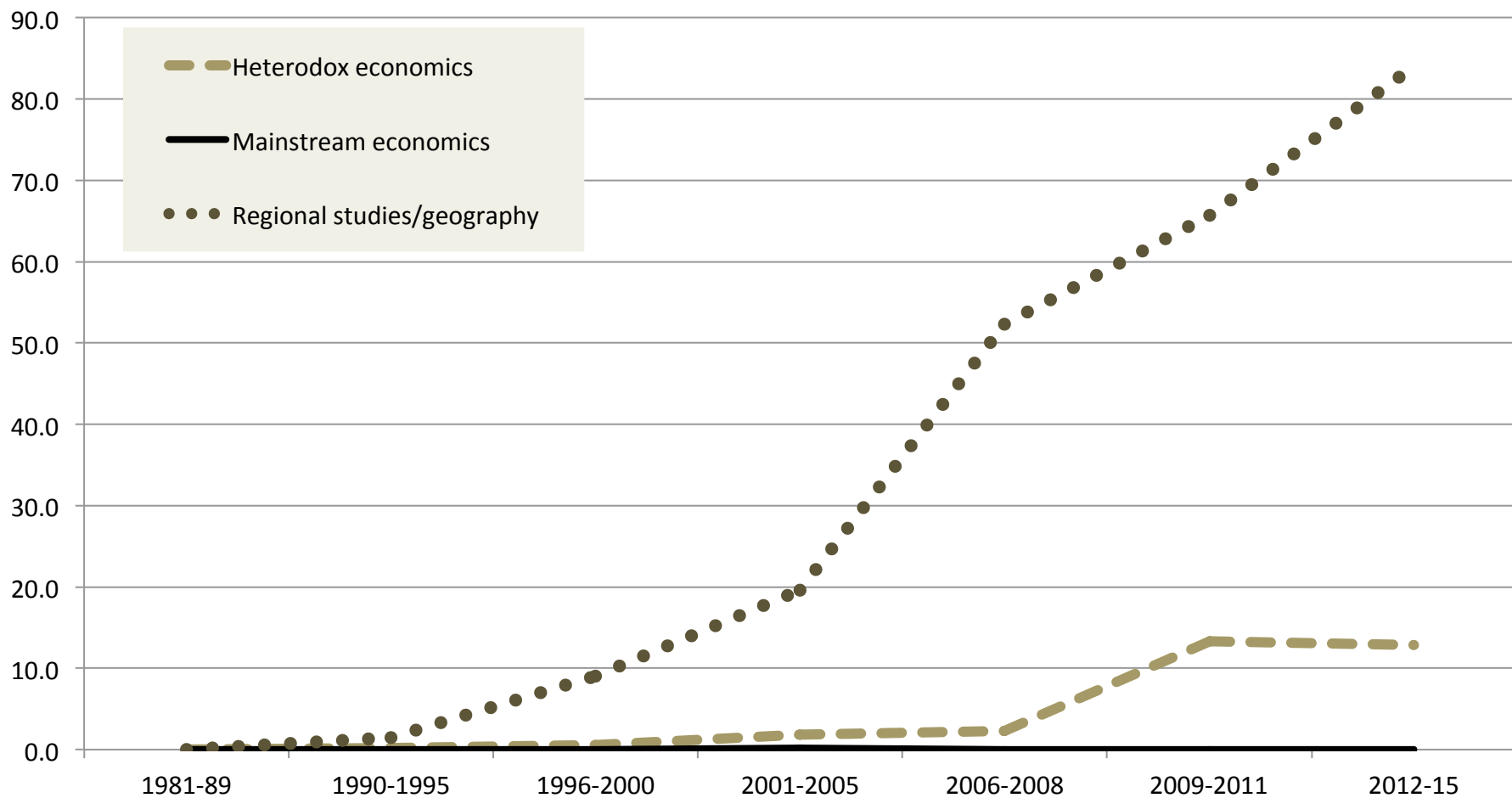


**Figure 5: "Marx" or "Marxian" as topic word in Web of Science, selected journals, annual averages, 1981-2015**

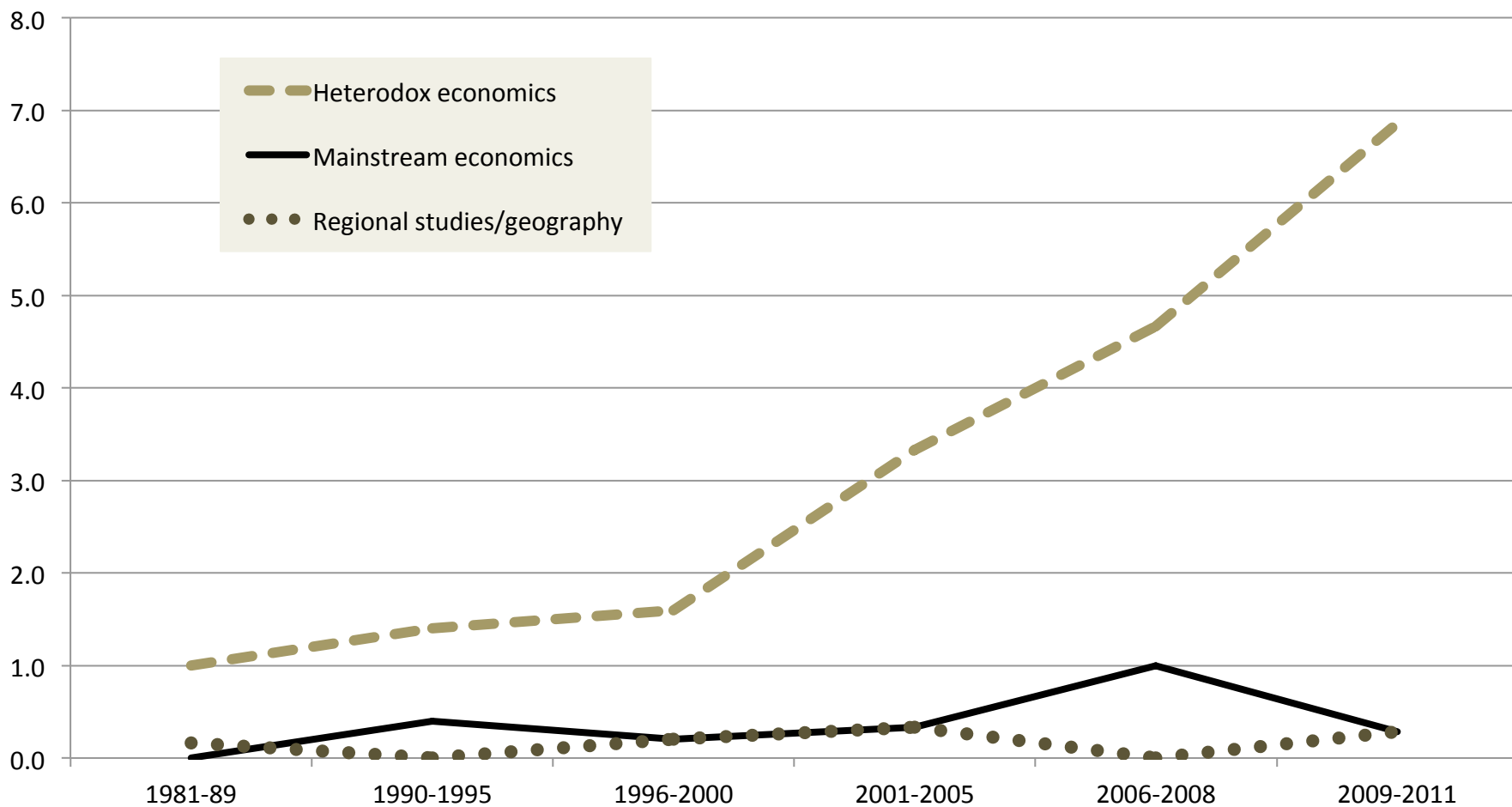




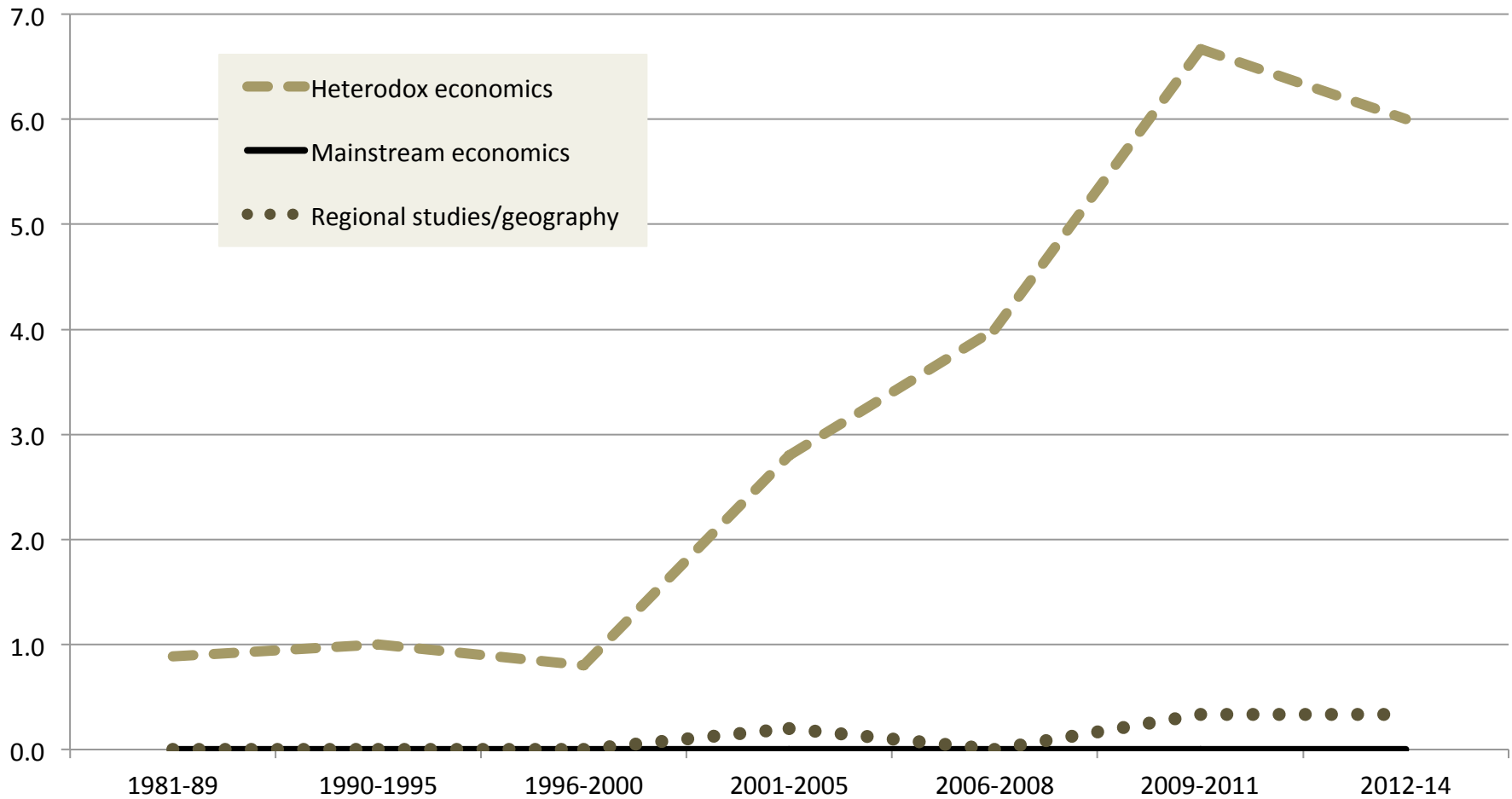
**Figure 5: "Neoliberal" as topic word in Web of Science, selected journals, annual averages, 1981-2015**



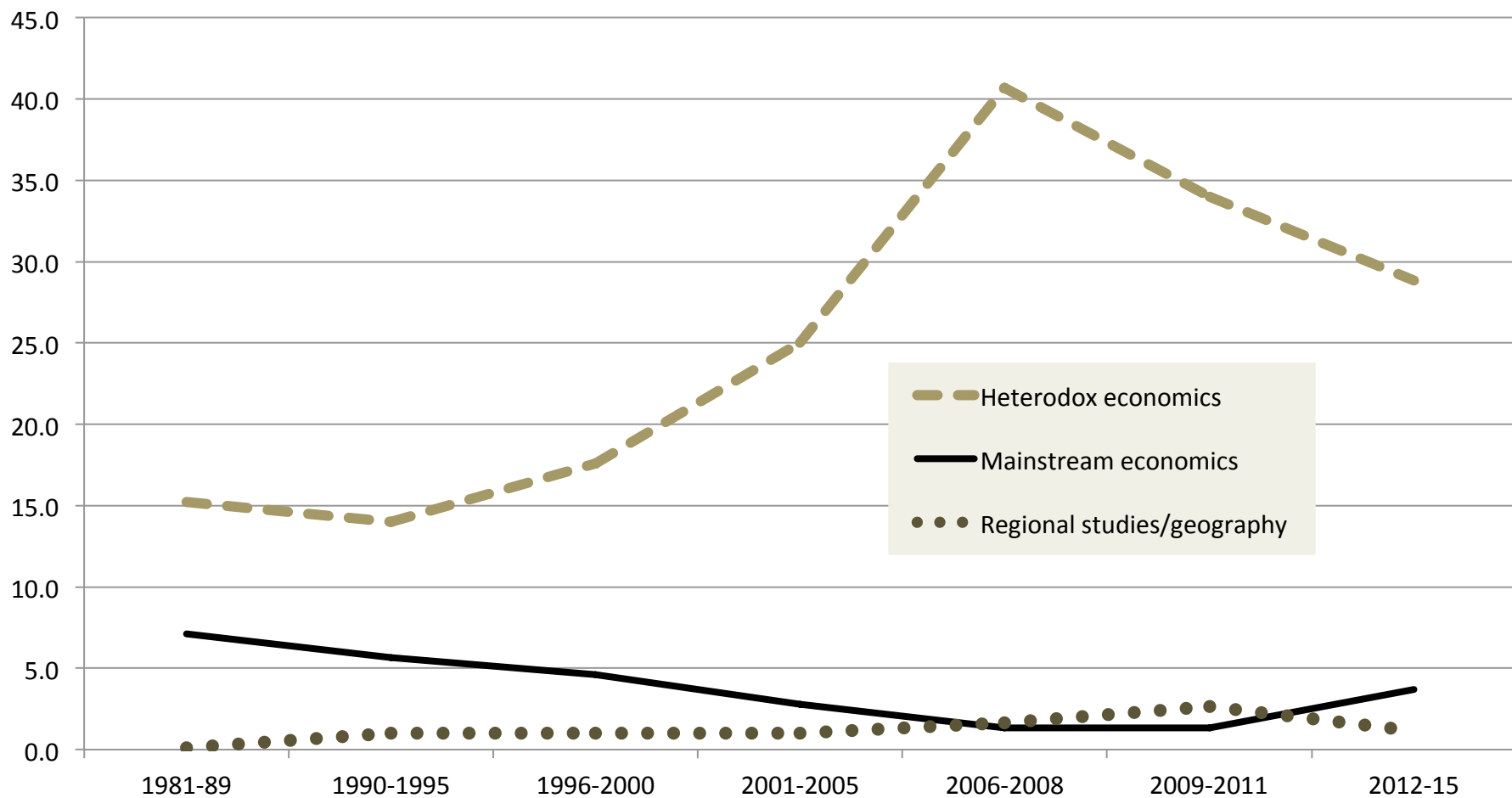
**Figure 2: "Financial instability" or "financial fragility" as topic words in Web of Science, selected journals, 1981-2014**



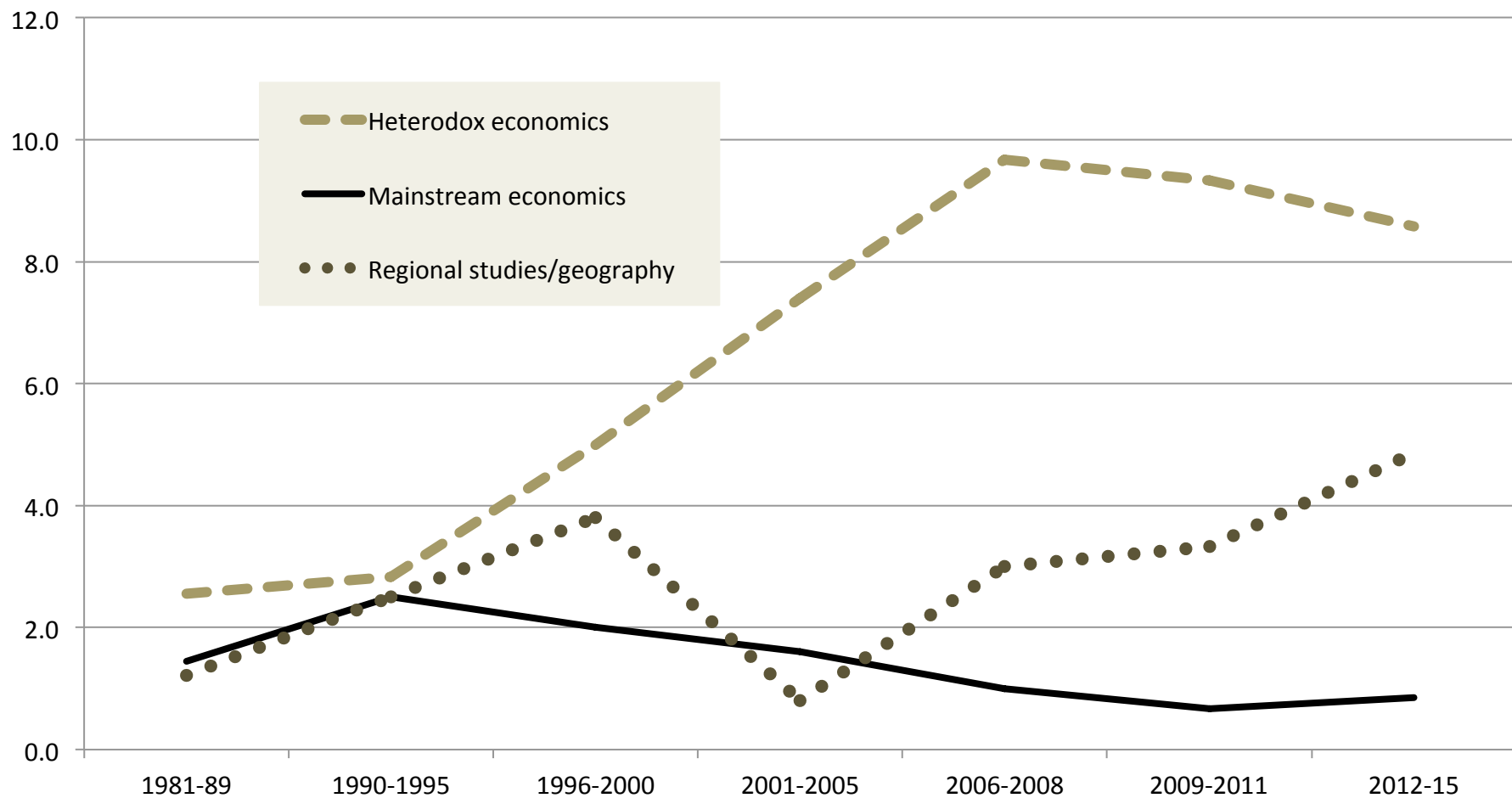
**Figure 3: "Minsky" as topic word in Web of Science, annual averages in selected journals, 1981-2014**



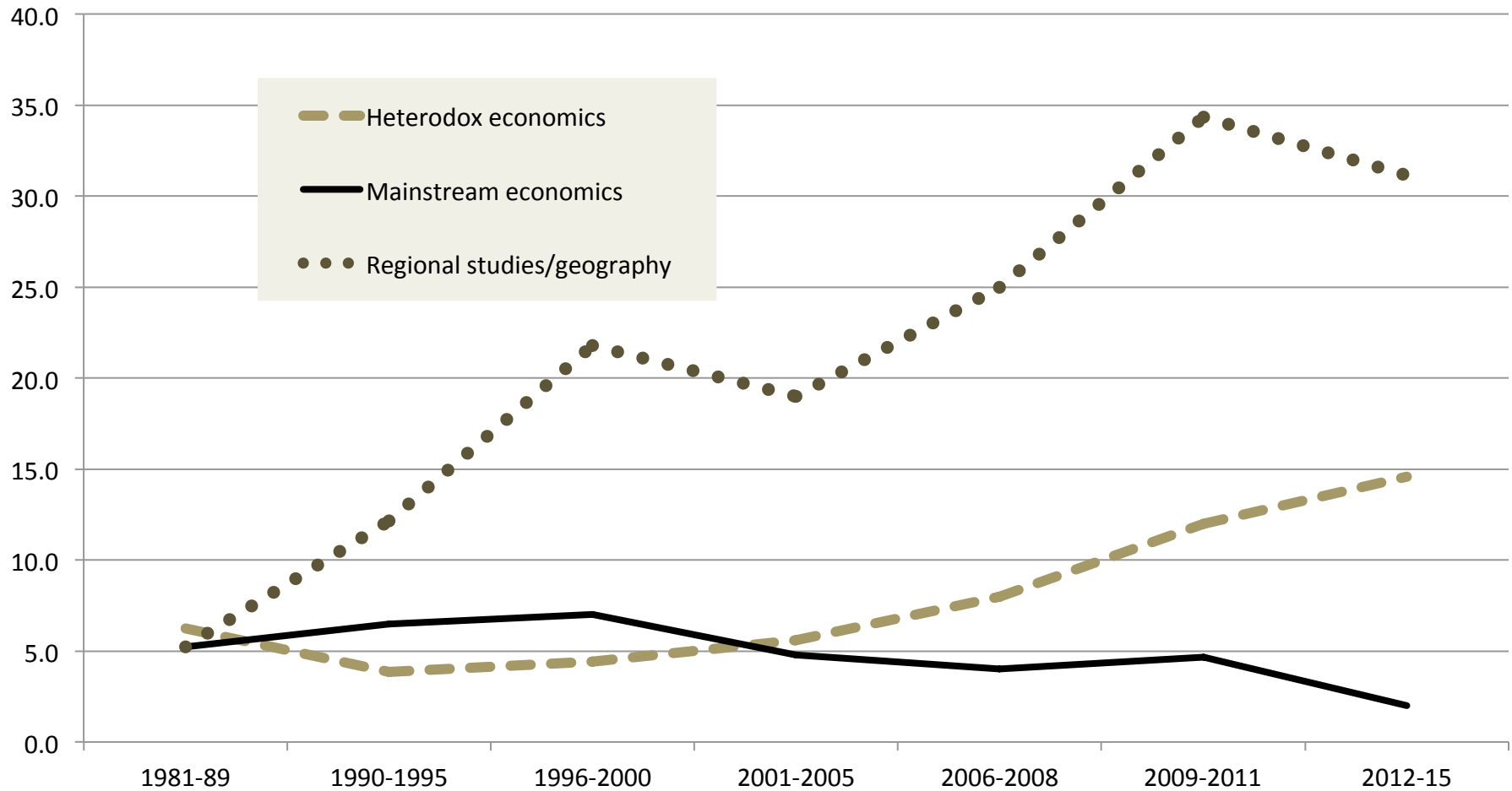
**Figure 5: "Keynes" or "Keynesian" as topic words in Web of Science, annual averages in selected journals, 1981-2015**



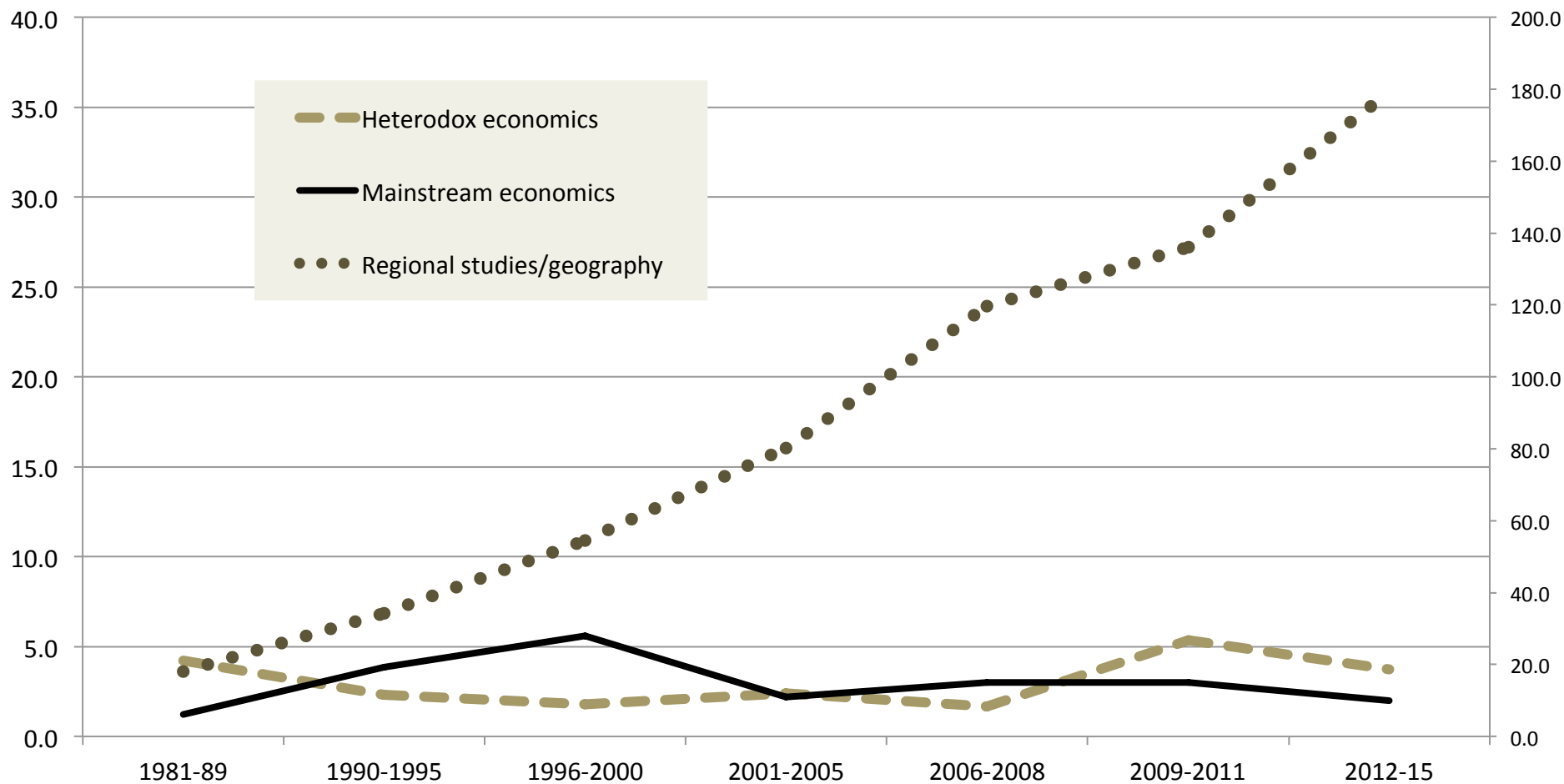
**Figure 5: "Neoclassical" as topic word in Web of Science, selected journals, annual averages, 1981-2015**



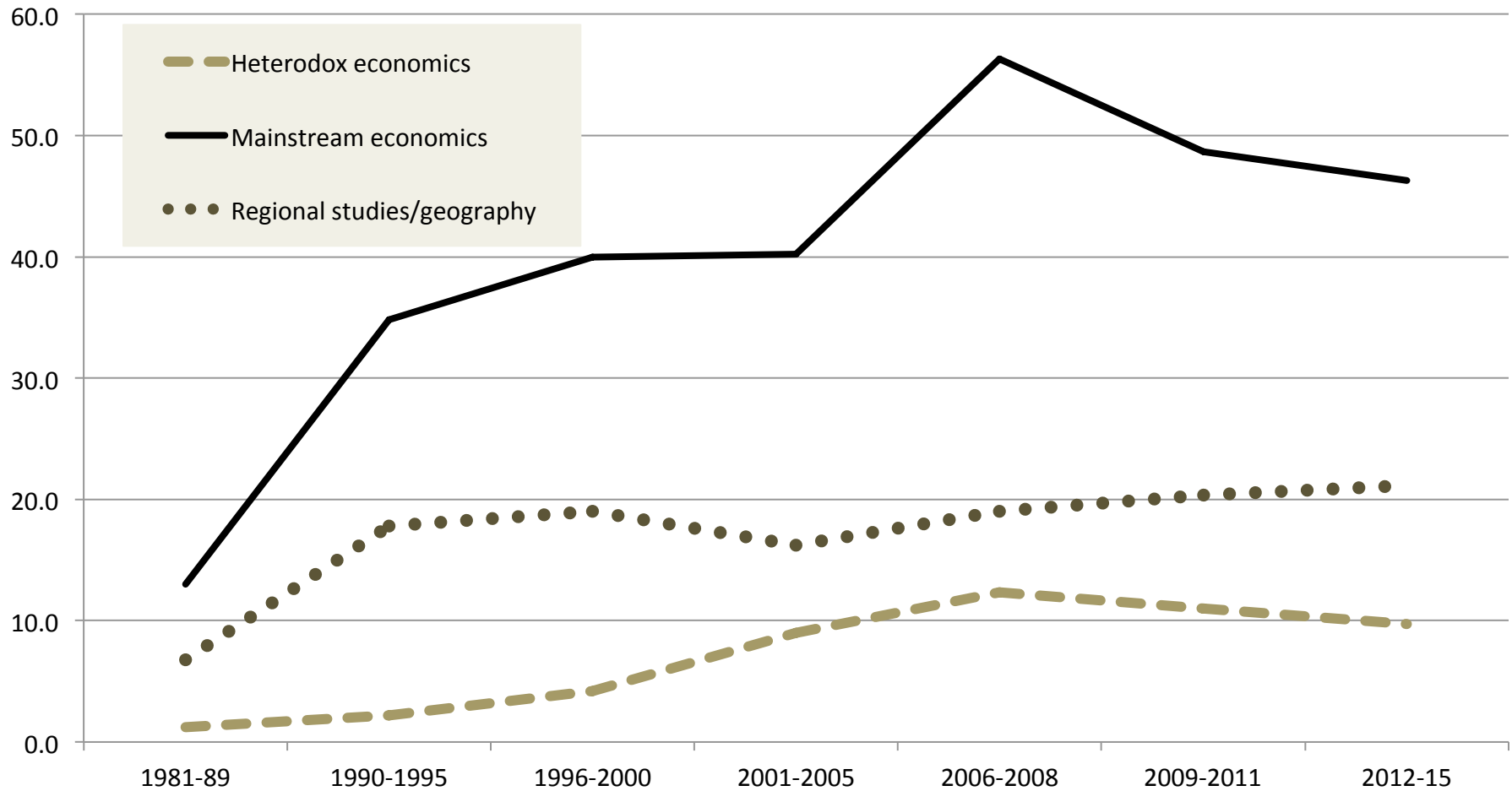
**Figure 5: "Political Economy" as topic word in Web of Science, selected journals, annual averages, 1981-2015**



**Figure 5: "Politics" as topic word in Web of Science, selected journals, annual averages, 1981-2015**

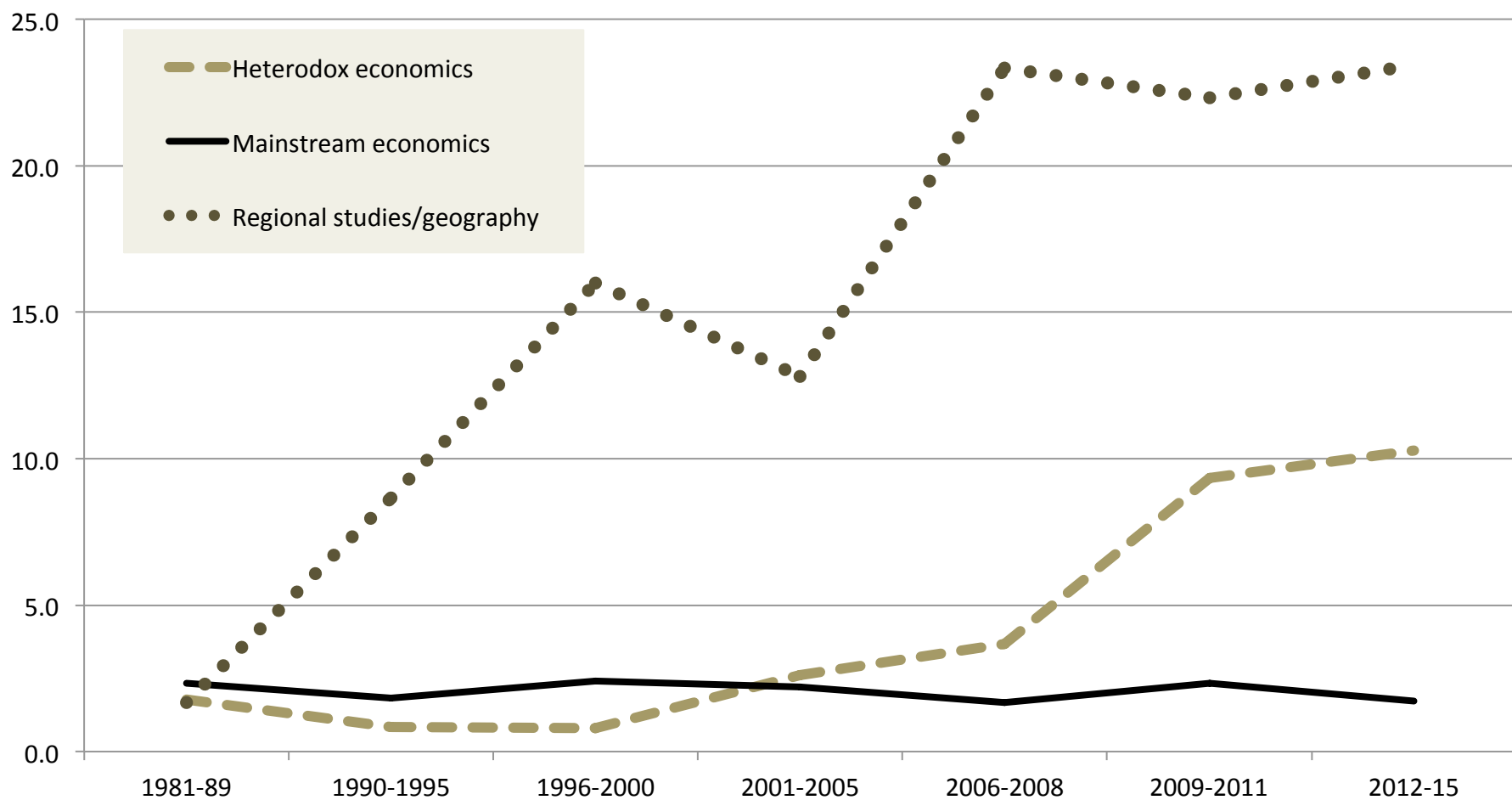


**Figure 5: "Equilibrium" or "Efficient Markets" as topic words in Web of Science, selected journals, annual averages, 1981-2015**

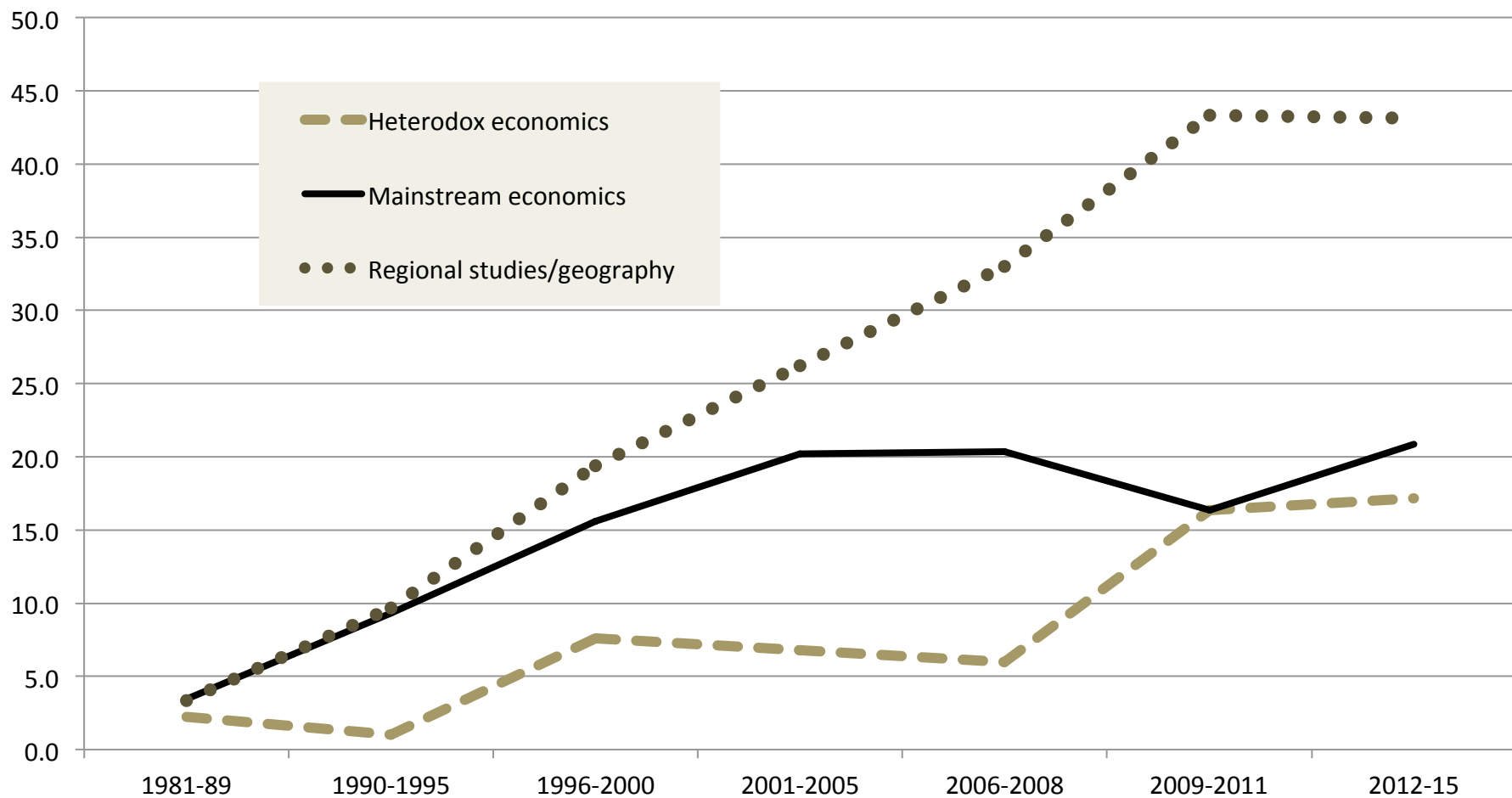




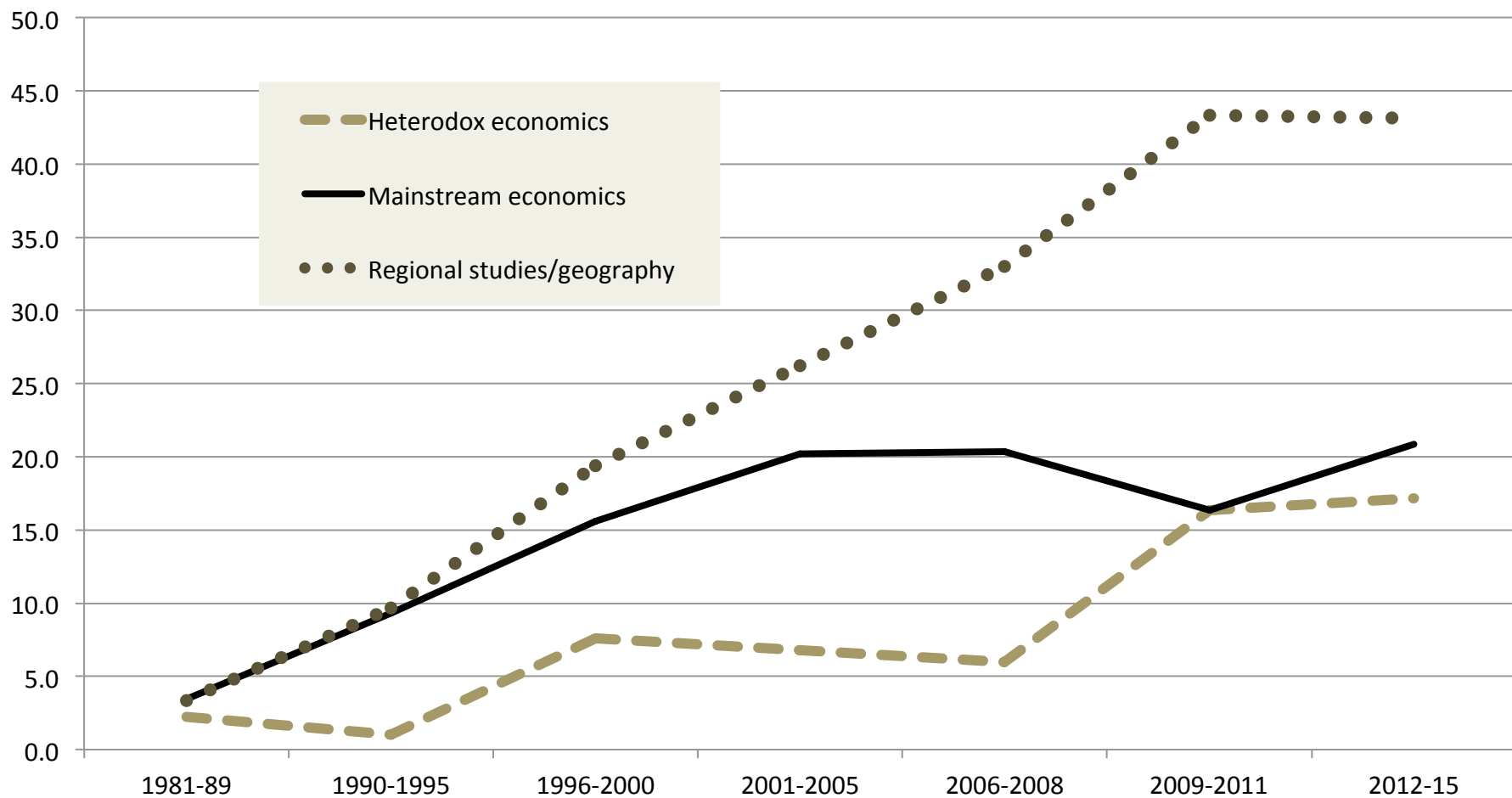
**Figure 5: "Imbalances" or "Disequilibrium" or "Contradictions" as topic words in Web of Science, selected journals, annual averages, 1981-2015**



**Figure 5: "Inequality" or "Unequal" as topic word in Web of Science, selected journals, annual averages, 1981-2015**



**Figure 5: "Inequality" or "Unequal" as topic word in Web of Science, selected journals, annual averages, 1981-2015**



# 1. How to engage with challenge of the global crisis

## **What is heterodoxy in economics?**

- See the list on the previous page
- Either you/we/I bring these elements into the corpus of “economics” or “economic policy discourse” or “political economy”,
- And then find languages of translation, extension, and so on, or ...

## **What role is there for interdisciplinarity?**

- Build bridges from home bases in Keynesian or Kaleckian or Marxian or feminist starting points to other fields, or ...
- Both.

## 2. Neoliberal era: ways of seeing

Neoliberal era as a “series of sequential policy dilemmas”

- **EG of 1970s-1980s: Policy dilemmas about banking**
  - Are there limits to growth based on resource exhaustion
  - Should banks be free to offer savings instruments at market rates?
  - Can countries go bankrupt?
  - Are there too many US banking firms?
  - Does deposit insurance discipline bank/thrift behavior?
  - [Are some banks too big to fail?
  - How to get bad bank debt off the balance sheets of big banks?]

## 2. Neoliberal era: ways of seeing

Neoliberal era as a “series of sequential policy dilemmas”

- **EG: 1980s-90s: Policy dilemmas for Europe**
  - How can Europe’s banks survive in a world of capital mobility?
  - How should European countries prepare for the “single market” in Europe?
  - Should European countries enter the EMU, the EU, both, neither?
- **EG: 2008-09: Policy dilemmas for the US**
  - How can megabanks survive even though insolvent?
  - Should mortgages for homes with collapsed values be ‘crammed down’?
  - Who bears the burden of loss when subprime paper goes bad?
  - What makes some households take on too much debt?
  - Why did the US government encourage poor black people to take on homes they couldn’t afford?

## 2. Neoliberal era: ways of seeing

Neoliberal era as a “descent into systemic global crisis in era of globalized – empowered – finance”

- Latin American debt crisis – 1982 on: the “lost decade”
- Stock market crash of October 1987
- Mexican post-NAFTA “Tequila” crisis, 1994-95
- Brazil-Russia-Turkey-Argentina foreign exchange crises
- Subprime + exploitative lending in formerly financially-excluded areas
- Subprime crisis
- European crisis
- China crisis

**THE  
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### 3. The shape of jazz to come

A “formula”:

- The responsibility of the intellectual (the insights from theoretical starting points, the analytical tools and languages available)

+

- The challenge of the times (the policy questions in debate, the policy problems off the table, the demands/needs of the people)

+

- When you break the conventional rules, to play together you must listen to the other musicians, so as to (follow/lead) collectively

=

- The contribution of each and every mind and every voice – all links in the chain, creating the shape of jazz to come.

<https://www.youtube.com/watch?v=Lbt9DDolcag>