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Make economics relevant again

Managing editors

Review of Economics and Economic Methodology (REEM) tries to promote the eclectic way of doing economics. To do so, we turn to the economists who best understood the subject of their inquiry. What can we learn from the great minds of Adam Smith, David Ricardo, John Stuart Mill, Karl Marx, Thorstein Veblen, John Maynard Keynes, Joseph Schumpeter, Frank Knight, Hyman Minsky, Friedrich Hayek, Kenneth Arrow, Amartya Sen and many others? While they do not necessarily share their political convictions or theoretical conclusions, they all understood the importance of deep and broad understanding of economic issues and their unquestionable social nature.

Since its first publication last year REEM has undergone an interesting transformation into a widely supported student journal. It happened when we have, out of mere curiosity, invited different notable economists to join our advisory board. To our great surprise and even larger appreciation, most of them accepted the invitation, while many have even praised our attempt to set up a serious journal, where both serious scholars and students can biannually publish their research, essays or book reviews. The reason behind setting up REEM is a straightforward, perhaps a naive dissatisfaction with the state of economic science today. We see economics isolated in the high ivory towers of mathematized models, and even after many recent economic-crises checks not much was done to counter such a seclusion of the economic mainstream. Economics is losing its old repute and merit, so we set to address the core of the problem – its canonical body of knowledge. While our initiative might be motivated by a youthful naivete, the support by so many grand names gave us a validation that we are stumbling in the right direction.

The second edition of REEM mirrors the general direction of the journal. We tried to make it eclectic in content and pluralistic in method. We have received many interesting contributions, and selected five that we think had the most significant contribution to the relevant topics in economics today. We invite the reader to approach these papers with scholarly tolerance and critical eye demanded by any intellectual discipline, and urgently needed to expand the horizon of economics yet again. This edition is strongly international; three out of five papers published were written by non-Slovenian scholars or students. In this editorial introduction, we want to summarize all the published papers and add a personal note to each one.

The first paper comes from a respectable scholar, Dr. David Ellerman, who long time ago waged a war against the institution of wage labor. In most of his past work – and the present one is no exception – he employs the labor theory of property (LTP) and natural rights theory to argue that the employment contract is an institutionalized fraud. While the employment contract pretends to do so, no contract *de facto* can - and for that matter, should -, alienate the right to self-determination and the personal responsibility of the product of one's labor. In the paper *Reframing the Labor Question: On Marginal Productivity Theory and Labor Theory of Property* (p. 9-44, this publication) Ellerman follows his neo-abolitionist approach to argue that economics should re-examine the property-related questions that arise when studying production. The question of who is to appropriate the property over the product of a firm has been neglected in both the marginal productivity theory (MPT) and in most of the heterodox theories of distribution. MPT holds that under competitive conditions each factor is paid according to what it produces - and so markets, if intact, distribute meritocratically among the factors of production. Heterodox economists usually take on the assumptions underpinning MPT. Uncompetitive markets, imperfections and asymmetries in information, immeasurability of marginal productivity, irrationality of economic agents and the like lead to power relations that favor capital owners to the detriment of laborers. On the left side of the heterodox-spectrum are Marxist economists, who criticize capitalism because it does not guarantee to the workers the value they create. All the above-mentioned theories and approaches to production deal with the distribution of the product and not the ownership of it. The distributive shares are not a factual description of how property is ascribed over the assets and liabilities created but rather a metaphor. There are no distributive shares, capital owners are, conventionally, owners of the whole product, while laborers usually do not own a share in it. Ellerman argues that all these metaphorically-driven theories are problematic – instead of distributive theory a pre-distributive theory is needed. Who should be the owner of the whole product (assets minus liabilities)? Either the capital owners should be able to appropriate the product and hire wage labor, or laborers should be the owners of the product, hiring capital for interest and land for rent. The ownership of the whole product does not follow capital ownership but the contract of hiring. When A hires B, A is the owner of 100% of the total revenues, and the liabilities to pay B wage, interest or rent (depending if B is labor, capital or land, respectively). In this paper, Ellerman shows that employment contract in which capital hires labor is invalid and should be replaced for a different type of hiring relation. To understand his argument, we should first understand that in the light of inalienability theory, there are certain personal liberties that are factually inalienable from one's personhood. For example, a liberty to self-determination cannot, by its nature, be taken away from a person. There is no switch in (wo)man's mind (not yet for that matter) that would take away her/his freedom of making her/his own conscious decision; raising a hand, believing in a god, thinking about certain things etc. While this means that no contract can alienate a person's liberty of choice and action, the employment contract pretends to do exactly so, as its essence is in "the right to control the servant's work, either personally or by another servant or agent. It is this right of control or interference, of being entitled to tell the servant when to work (within the hours of service) and when not to work, and what work to do and how to do it (within the terms of such service) which is the dominant characteristic in this relation."[1] We can now return to the question of who should be the owner of the whole product? According to juridical principle of imputation, legal responsibility is assigned in accordance with factual responsibility. If worker's responsibility for her/his own actions cannot be transferred to an employee, not even with a contract that pretends to do so, we should find a relationship that transfers the transferable, alienates the alienable. A contract where labor hires capital (and land) is such a contract, and the only valid contract of hiring. Thus, Ellerman concludes, workers should be the only owners of the whole product of the firm. The solution lies in economic democracy.

The paper by Andrej Srakar, research associate at the Institute for Economic Research (IER) in Ljubljana and Assistant Professor on the Faculty of Economics, University of Ljubljana, comes from a field which is still rather unfamiliar to most economic readers, especially among Slovenian economists - cultural economics. The paper *In need for a drastic change: On the "evidence-based" debates in cultural economics and cultural policy research* (p.45-62, this publication) addresses the relationship of cultural economics and research in cultural policy and provides a bold claim to the field that most of the research in cultural policy, indeed most of the field itself, is an example of "bullshit" (following the renowned definition of Harry Frankfurt). Srakar firstly provides a concise definition of bullshit and links it to a similar article on bullshit in cultural policy by the renowned University of Warwick professor, Eleonora Belfiore. Yet, if the article of Belfiore was mainly a critique of "statisticulation" of cultural policy, Srakar's article provides an opposite claim: there is far too little "serious" statistics in the research on cultural policy which severely

[1] Ronald Coase *The Nature of the Firm* (1937): This is a seminal paper in the new institutional theory that sets theoretical foundations for the study of a firm and employment relation.

hinders the development of the field. Srakar provides justification of his claim via two case studies (but there could, surely, be more, which he explains in conclusion and provides a detailed list of open questions in the research on cultural policy and cultural economics, almost completely unaddressed, at least as far as empirical and econometric evidence is concerned). His first case study is a classical one: studies on the economic impact of culture. This already formed the basis for the Belfiore's article, but here, not only there is a different focus, but a solution is provided to decades of futile discussions and research in this area: a new and promising method, ex-post econometric verification, which received acclaim in recent two years in cultural economic circles, culminating in the recent special issue of Journal of Cultural Economics, where the editors, Ilde Rizzo and Douglas Noonan, state: "The economic impact study included in this special issue, for instance, stands out for its application of a (much-maligned) methodology in a particularly novel way that clearly articulates a contribution to the economic literature. Clearly, it is possible to advance the field and state of knowledge substantially even in controversial areas. The prevalence of studies using a particular methodology (e.g. CVM, economic impact analysis, DEA) merely raises the bar in terms of rigour and novelty that is needed to stand out from the crowd." (Rizzo and Noonan, 2017). Srakar also elaborates on the condition on this topic and provides some answers to the problems noted but not solved by Belfiore. In the second case study, another problematic issue in the research on cultural policy has been addressed: usages of official cultural statistics to address measurement issues in the research on cultural policy, in particular, the construction on composite indicators. Srakar clearly elaborates in the open issues and problems here, and, again, provides several pathways for more consistent and much needed research in the area in future. In the concluding section, Srakar, on the one hand, provides a detailed listing of vast and open issues, possible methods, datasets and approaches for future research in cultural policy (and its relationship to cultural economics), and concludes by nicely and directly repeating his main claim: "Until something changes, evidence-based cultural policy research is an example of bullshit. It is the task of future work in cultural policy research (and cultural economics) to change this in a significant and drastic manner." The article is, therefore, a rather bold and innovative theoretical contribution to the fields of both research in cultural policy and cultural economics and is likely to be referred to and addressed in future work in this area.

In the paper *Why established macroeconomics is problematic and how this situation can be overcome* (p. 63-83, this publication) David Chester argues that the current status of established macroeconomics is problematic and proposes a different take on the subject. The author finds that the field suffers from logical fallacies, poor definitions and ill-defined ideas. Additionally, scientific endeavour is hampered by the inevitable presence of politics and bias. Finally, according to the author, macroeconomic theory lacks scientific formality and finds that the language of economics has been a serious obstacle towards the subject coming closer to proper scientific inquiry. The author then proposes a model based on six types of economic units: landlords, householders, capitalists, producers, the government and finance institutions. In some respects, this sort of a division is already present in existing modes of thought rooted in the classical and Cantabrigian traditions and upheld by post-Keynesian authors today. The final version of the model is made up of stocks and flows and access rights to natural resources between these different groups.

The authors background in engineering gives an interesting, outsiders view on economics and how it is currently being tackled. A large part of his critique has to do with the language of economics, where different authors use different terminology describing the same phenomena. While this is obviously problematic in light of the subjects' aspiration towards becoming a proper scientific discipline, it is also quite telling that despite how mathematicized mainstream economic theory has become, the author, coming from a natural science background, still fails to identify it as scientific. And rightfully so. Because the formal elegance is a facade for ideology, an elaborate series of thought experiments with very clear conclusions to which the empirics have to adapt (and not the other way around!). Therefore, the critique of economics not being scientific is spot on, but the question then becomes whether it ever can be to the same degree that, for example, physics is? The answer to that question depends very much on one's Weltanschauung. Because lest we forget, it is far from certain that what we perceive as the scientific method should be applied in all walks in life because it has proven so successful in some of them. In others, it has failed miserably and continues to do so.

In the article *Socialism and Marxian economics: An overview* (p. 84-101, this publication) Ema Talam provides a short and accessible introduction to the basics of Marxian economics whose analysis is, especially in the midst of the current social and economic crisis, relevant yet often put aside. Ema first reviews major milestones in the life of Karl Marx and succinctly comments on some of his most famous aphorisms. Next, she presents Marx's idea of socialism and contrasts it with other, competing versions that were in circulation at the time. She also notes the two-other main intellectual influences on Marx's thinking – Hegelian philosophy and Ricardian political economy – and sets forth a rough sketch of Marx's theory of history. In the next two subsections, she describes what are probably the most known concepts which are associated with Marx, especially with his critique of political economy, i.e. the commodity, value and surplus value. The three subsections that follow are concerned with Marx's theorization of capitalism's inherent tendency towards crisis. Talam reviews Marx's law of the tendency of the rate of profit to fall and points out that this idea has been one of the most criticized aspects of his intellectual enterprise. She concludes the article by observing that many of Marx's theoretical pronouncements and especially his predictions have been shown to be only partly true, insufficient or outright mistaken. However, she notes, there is much to be appreciated both in what Marx says and the types of analyses he has bequeathed to us.

In the last contribution of the second REEM edition, Maruša Conič, a MSc student of Faculty of Economics, University of Ljubljana, has written a review of Choreography of Resolution: Conflict, Movement, and Neuroscience, a book publication, edited by Michelle LeBaron, Carrie MacLeod and Andrew Floyer Acland (p.102-108, this publication). This book provides a theoretical overview on the issues related to contemporary dance practices, related to economics and other social sciences. Most topics relate to conflict and its relationship to contemporary dance practices. First chapters of this book relate to cognitive science, in particular neuro-scientific and neuro-economic developments (highly addressed in economic literature in recent years in general, see e.g. authors like Kahneman, Motterlini, Shull, Vernon L. Smith, Zak, Tversky, De Martino and Camerer). They also address an issue, quite familiar for Slovenian theoretical debates, one could say: relationship of dance and ideology. Following chapters also address the relationship of dance and intelligence (kinesthetic and emotional), analogies in the negotiation processes and conflict resolution to dance practice; mediation; and, finally, several case studies (Ireland, Cambodia, Liberia). Most of all, it will be interesting in the future to develop such research endeavours in more detail and deepness: as many artistic sectors and areas, dance is exteremely interesting and its connections to social sciences theories and methos would need more effort. As Conič writes at the end of her review. "Economists and empiricists of the social sciences could design and apply a myriad of observational techniques and of approaches for determining the important variables, descriptions of the patterns, measuring scales, etc., … There is immense potential for the fields of behavioural and experimental economics to discover new factors that drive behaviour, or get closer to observing how the known factors behave under different tasks. Once researchers start developing methods of observation and analysis that combine empirics, comparative approaches in institutional systems and organizational studies, semiotic approaches, heuristics, cognitive science and other approaches, the field can open a pool of options for new knowledge about decision making and social interaction." This reminds me of a fascinating endeavor done in recent years at the Institute Jožef Stefan, a contribution of the work of Prof. Nada Lavrač and her colleagues: the modelling of creativity following bisociation theories of Koestler and using data mining approaches. Indeed, the developments in contemporary statistics and mathematical modelling would allow many approaches to stud the issues presented in the book and noted in Conič's review – it is a hopeful wish they will be followed in future and many new, fascinating and much needed knowledge on those topics finally provided.

It should now be clear that the second edition of REEM covers a decent variety of economic topics with an obvious interdisciplinary and pluralist approach. A critical reader might question such an array of topics published in so-proclaimed economic journal. In this case, we ask the reader; what should economics be the science of? Most economists would reply that economics is the study of individual choice within given constraints, using the optimization method. It is not up to us, and most certainly not up to this editorial introduction to provide a different (and better) definition of economics, but we could not call ourselves a critical academic institution if we were to pass over such conversation in silence.

Any science is a systematic study of its own particular subject, therefore to define a science, one needs to define its field of interest. What often happens, especially in the social sciences, is that a certain method of a study determines the subject of a study and not *vice* versa. Physics is the study of matter and its motion and behavior through space and time, while Newtonian method is only necessary but not sufficient to understand related questions. Biology is the study of life and living organisms, but the evolutionary biology is only a subset of its methodology. Similarly, to define economics, we should ask what are its fields of interest and should never allow a method (optimization) to determine its subject (individual choice within given constraints). As told above, we think that one of the reasons that economics lost its relevance is the reduction of its theoretical scope and reduction of the method.

We think that the question of property acquisition of the firm's product is a subject of economics; we think that Marxian analysis of capitalism bears often forgotten importance for economic analysis; we think that culture has a clear economic impact and should be encouraged for the economic reasons in addition to the aesthetic ones; we think that macroeconomics suffers under the prevalent methodological individualism, and its critique ought to be read in economic journals; and finally, it was argued that economics can learn even from seemingly completely unrelated subject of dance – we included a review of a book that tells a story about how contemporary dance practices can help us understand different economic issues. It is impossible, of course, to address such a variety of subjects with bare economic tools. For a sufficient analysis of such interdisciplinary subjects, an interdisciplinary approach is necessary, and for this reason, we allow the tools of philosophy, sociology, psychology and law to enter our journal.

But we have already taken this discussion a step too far. To clear any possible misunderstanding, we are not in any way apologizing for this publication and the broad aim of the journal, - our motives are honest and scholarly - but sometimes one has to defend such projects against the well-worn paths of intellectual laziness that proliferates too many scientific institutions. The second edition of REEM tries to rejuvenate the initial colorfulness of economic inquiry. To make economics relevant again.