

# Volume 42, March 2008

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## GALBRAITH SYMPOSIUM, *J. Ronald Stanfield, Guest Editor*

- Introduction, *Richard V. Adkisson*, pp. 1-2.
- “Ken”, *Richard Parker*, pp. 3-4.
- Galbraith and Robinson’s Second Crisis of Economic Theory, *Mary Wrenn, James Ronald Stanfield, and Michael Carroll*, pp. 5-11.
- Galbraith and Robinson’s Second Crisis of Economic Theory, *William Waller*, pp. 13-24.
- Galbraith and the Problem of Uneven Development, *Jim Peach*, pp. 25-35.
- Economic Consequences of Armaments Production: Institutional Perspectives of J.K. Galbraith and T.B. Veblen, *James M. Cypher*, pp. 37-47.

## ARTICLES

- Socially Responsible Investment and Pro-Social Change, *Martha A. Starr*, pp. 51-73.
- Determinants of Housing Loan Patterns Toward Minority Borrowers in Mississippi, *Fidel Ezeala-Harrison and Glenda B. Glover*, pp. 75-96.
- What Accounts for Intra-Industry Wage Differentials? Results from a Survey of Establishments, *David Fairris and Erik Jonasson*, pp. 97-114.
- Rationality as a Social Construction: What Does Individual Behavior have to say About Development in an Amazon Community? *Andrés Marroquín Gramajo*, pp. 115-132.
- American Prosperity and the “Race to the Bottom:” Why Won't the Media ask the right questions? *Dell P. Champlin and Janet T. Knoedler*, pp. 133-151.
- Demand Constraints and Big Government, *L. Randall Wray*, pp. 153-173.
- Uncertainty and Exploitation in History, *Engelbert Stockhammer and Paul Ramskogler*, pp. 175-194.
- Institutionalism and New Trade Theory: Rethinking Comparative Advantage and Trade Policy, *Thomas I. Palley*, pp. 195-208.

- The Ideology of the Laissez Faire Program, *John F. Henry*, pp. 209-224.
- John R. Commons and John Maynard Keynes on Economic History and Policy: The 1920s and Today, *Charles J. Whalen*, pp. 225-242.

#### NOTES AND COMMUNICATIONS

- The Free Lunch: Arbitrage Profits Associated with Credit Cards, *Austin H. Spencer*, pp. 243-247.
- A Minsky Moment: Reflections on Hyman P. Minsky (1919-1996), *Charles J. Whalen*, pp. 249-253.
- Why Is This Cycle Different from All Other Cycles? *Howard J. Sherman and Paul D. Sherman*, pp. 255-268.

## Volume 42, March 2008 Abstracts

*Mary Wrenn, James Ronald Stanfield, and Michael Carroll*

Galbraith and Robinson's Second Crisis of Economic Theory

The "second crisis of economic theory" that, in the 1970s, concerned John Kenneth Galbraith and Joan Robinson continues. There is a considerable literature on the continuing crisis of economics. This essay roots this malaise in the second crisis of economic theory. The "Keynesian revolution" dealt with one aspect of the crisis of economic theory, the inadequacy of aggregate demand, but neo-Keynesian economics left a vacuum by not addressing the state's role in the structure of output. Hence, issues in regard to distribution and uneven development and militarism, consumerism, and ecological sustainability were neglected and persist with great force today. The road to the neoliberal era of Great capitalist Restoration was paved by the failure of confidence by modern liberal economics, and the crisis therein continues. Even now, some three decades on, Robinson and Galbraith offer insights toward resolving this impasse. *J. Econ. Issues*, March 2008, 42 (1), pp. 5-11. Weber State University, Colorado State University and Bowling Green State University.

### ***William Waller***

#### Galbraith and Robinson's Second Crisis of Economic Theory

This article counters the claim that John Kenneth Galbraith's work was descriptive in character. Instead, the case is made that Galbraith's work was theoretical in nature. Galbraith was primarily a cultural theorist rather than the deductive formalist type theorist typical in mainstream economics. In particular, it is shown that Galbraith's "revised sequence" is part of his substantial contribution to the theory of consumption. Additionally, his analyses of economic power are not merely descriptive but instead constitute a cultural theory of economic power. J. Econ. Issues, March 2008, 42 (1), pp. 13-24. Hobart and William Smith Colleges in Geneva, New York.

### ***Jim Peach***

#### Galbraith and the Problem of Uneven Development

This article examines John Kenneth Galbraith's contributions to the field of economic development. Galbraith's works on economic development were numerous, but they remain largely ignored by his critics and fans alike. He approached the economic development problem with a keen understanding of both the economic and political forces shaping the development debate. Galbraith's contributions to development economics were always focused on how to get the job done. Doing so required different strategies in an exceedingly diverse community of nations. His work remains relevant. The literature is only now beginning to recognize that this holistic approach to development is a necessary alternative to single-causation theories of world poverty. Galbraith's approach to development problems is consistent with (and perhaps inspired by) original institutional economics (OIE) in the tradition of Thorstein Veblen and Clarence Ayres. J. Econ. Issues, March 2008, 42 (1), pp. 25-35. New Mexico State University.

### ***James M. Cypher***

#### Economic Consequences of Armaments Production: Institutional Perspectives of J.K. Galbraith and T.B. Veblen

J.K. Galbraith's short book, *How to Control the Military*, boldly championed political and institutional reforms to curb "the military power." Galbraith stood out among economists for his advocacy of arms reduction negotiations with the Soviet Union. He rejected the hypothesis that the Soviet Union nurtured an aggressive expansionary military policy. At the same time, he maintained that the tenor of national policy and the shaping of national priorities emanated from the Pentagon.

Galbraith's assertion that the military was the dominant force within the "military-industrial complex" was never empirically demonstrated. Nor did he adequately address the crucial role that military outlays played in advancing major technological innovations which underwrote the accumulation process. Veblen offered a more comprehensive analysis of the role of military expenditures, correctly showing that forms of "waste" are highly functional to the institutional and ideological structure of the U.S. economy. Military Keynesianism constituted the evolution of his conceptualization. *J. Econ. Issues*, March 2008, 42 (1), pp. 37-47. Universidad Autónoma de Zacatecas, Mexico.

## ARTICLES

### *Martha A. Starr*

#### Socially Responsible Investment and Pro-Social Change

Socially responsible investment (SRI) refers to investing in companies based on financial and social performance, where the latter includes such concerns as the environment, sweatshop labor, and animal testing. This paper argues that SRI strongly resembles pro-social behaviors and social dynamics found in experimental settings. The role of *fairness-related sanctioning* is emphasized, wherein companies that treat their various stakeholders "fairly" are screened into SRI portfolios, while those treating them poorly are screened out. It is argued that because SRI creates opportunities for businesses to thrive relative to their competitors by improving social performance, it creates some scope for pro-social change. Still, the magnitude of changes that can be expected from voluntary changes in business behavior remains to be determined. *J. Econ. Issues*, March 2008, 42 (1), pp. 51-73. American University.

### *Fidel Ezeala-Harrison and Glenda B. Glover*

#### Determinants of Housing Loan Patterns Toward Minority Borrowers in Mississippi

*JEL Classification Codes:* G1, O1, R0

This paper analyzes bank lending activities for owner-occupied housing loan extensions to minority members of Mississippi's population. We analyze data on housing loan applications and accessibility patterns among the minority Black population relative to the majority White population groups in the State. The study looks hard at data for evidence of any patterns of discrimination toward minority housing loan applicants. And a Probit model is applied to examine the relative importance of economic variables (such as employment status, income level, and credit rating) versus non-economic parameters (such as geographical location) in the

housing loan decision making of banks toward minority borrowers. The evidence from our comparative data analysis suggests that there is a consistently high denial rates for minorities, which is not explained by financial (economic) factors. The formal test of discrimination with the Probit analysis also indicates some evidence of discrimination from, at least, the standpoint of redlining practices, *albeit* only with a modest predictive power. *J. Econ. Issues*, March 2008, 42 (1), pp. 75-96. Jackson State University.

***David Fairris and Erik Jonasson***

What Accounts for Intra-Industry Wage Differentials? Results from a Survey of Establishments

This paper utilizes an original establishment survey in a select few low-wage industries in Los Angeles to draw conclusions about the existence of and explanations for intra-industry wage differentials. We explore differences in average establishment wages but also in the starting wage of the largest low-wage occupations in establishments. Well over 50 percent of the variation in average establishment wages occurs across establishments within industries and 60 percent or more of the starting occupational wages of establishments occurs both within industries and occupations. Differences in the skills of workers account for a portion of the variation in intra-industry average and intra-occupational starting wages, but so too do institutional factors such as unions, rent sharing, monitoring difficulty, and recruitment difficulty. *J. Econ. Issues*, March 2008, 42 (1), pp. 97-114. University of California, Riverside and Lund University, Sweden.

***Andrés Marroquín Gramajo***

Rationality as a Social Construction: What Does Individual Behavior have to say About Development in an Amazon Community?

This article argues that two different manifestations of rational behavior can coexist and collide in a relatively homogeneous society. In the Ticuna community of Arara in the Colombian Amazon; on the one hand, the majority of villagers tend to reach relatively lower levels of material wealth, following Polanyi's idea of the *pre-modern man* (1968a; 1968b; 1968c), and also Sahlins' (1972) idea of the original affluent man. On the other hand, community leaders and schoolteachers tend to accumulate material wealth, following Polanyi's idea of *modern-man* (1968a; 1968b). These behavioral frameworks help explain the limited success of certain types of development programs in the Ticuna community. *J. Econ. Issues*, March 2008, 42 (1), pp. 115-132. Francisco Marroquin University, Guatemala.

***Dell P. Champlin and Janet T. Knoedler***

American Prosperity and the “Race to the Bottom:” Why Won't the Media ask the right questions?

Media coverage of income inequality and the economic plight of the middle class fails to analyze the long-term effects of growing inequality and to consider possible solutions. The article examines the literature on media coverage of income inequality and the middle class, and then examines how three competing models, the neoclassical economic model, the propaganda model, and the institutionalist model, explain the inadequate coverage of the effects and solutions. J. Econ. Issues, March 2008, 42 (1), pp. 133-151. Retired and Bucknell.

***L. Randall Wray***

Demand Constraints and Big Government

In a series of articles and books, John Walker and Harold Vatter extended the arguments made earlier by Evsey Domar that the U.S. economy suffers from chronically insufficient demand that leads to growth below capacity. Their analysis of secular growth complements the well-known writings of Hyman Minsky, who also emphasized the role of the “big government” and the “big bank” in stabilizing an unstable economy over the cycle. Like Minsky, Vatter and Walker argued that U.S. capitalism has evolved through several distinct forms, although they characterize the last one hundred years as a period of secular stagnation. This article will summarize, provide support for, and extend the Vatter and Walker approach, concluding with an examination of some of the dangers facing the U.S. economy today. J. Econ. Issues, March 2008, 42 (1), pp. 153-173. University of Missouri, Kansas City.

***Engelbert Stockhammer and Paul Ramskogler***

Uncertainty and Exploitation in History

The paper builds on the Marxist concept of exploitation to explore the meaning of the Post Keynesian notion of uncertainty. Uncertainty is mediated by institutions and is distributed unevenly among different social groups. As different historical social formations entail different institutional structures, the distribution and nature of uncertainty will also differ. The social configurations between class relations and uncertainty are analyzed for the capitalist, feudal and slave modes of production. It is demonstrated that modes of production do not only imply specific exploitative relations but also different relative distributions of uncertainty amongst classes. The joining of Marxian and Post Keynesian approaches allows for a richer understanding of exploitive relations and illuminates the full societal impact of uncertainty. It is shown that only in capitalism is the exploited class exposed to a substantial degree of

economic uncertainty. *J. Econ. Issues*, March 2008, 42 (1), pp. 175-194. Wirtschaftsuniversität Wien, Austria.

### ***Thomas I. Palley***

#### Institutionalism and New Trade Theory: Rethinking Comparative Advantage and Trade Policy

Gomory and Baumol (2000), and Samuelson (2004) have raised concerns about international trade's future impact on U.S. national income. The focus is how globalization may affect the size and distribution across countries of gains from trade. Though their analysis is developed using a pure trade theoretical framework, it has strands in common with institutionalist thinking. Their findings spotlight the need for a new U.S. trade policy agenda aimed at maximizing the U.S. share of gains from trade, and complementing conventional Keynesian open economy macroeconomic analysis. *J. Econ. Issues*, March 2008, 42 (1), pp. 195-208.

### ***John F. Henry***

#### The Ideology of the Laissez Faire Program

Over the last 35 years, a free market, laissez faire program has increasingly dominated perceptions as to what constitutes correct economic theory and policy. Most adherents of this program trace its origins to Adam Smith, and claim that its dominant position is the result of superior theory.

The argument here is that Adam Smith is not the theoretical ancestor of modern laissez faire economics, and that there are fundamental differences between Smith's position on laissez faire and that of conventional neoclassical theory. A difference between "soft" and "hard" laissez faire is made, where Smith represents the former position; neoclassical theory the latter. Further, and more important, it is argued that the current laissez faire program is an outgrowth of a political program instituted in the 1930's and financially supported in the present era by conservative foundations to promote an ideological framework that permits the development of specific governmental (and non-governmental) actions. *J. Econ. Issues*, March 2008, 42 (1), pp. 209-224. University of Missouri, Kansas City.

### ***Charles J. Whalen***

#### John R. Commons and John Maynard Keynes on Economic History and Policy: The 1920s and Today

In a pair of 1925 lectures, John Maynard Keynes described world economic history with reference to a classification of stages developed by John R. Commons. This

article examines Keynes's two 1925 lectures in the context of Commons's writings. It spotlights lesser-known aspects of Commons's scholarship and helps clarify ambiguities in Keynes's two addresses. It also identifies a key document, written by Commons, upon which Keynes relied when developing his presentations. In addition, the article explains how the work of Commons and Keynes in the 1920s has relevance for the contemporary development of evolutionary Keynesianism (which can also be called Post-Keynesian Institutionalism). J. Econ. Issues, March 2008, 42 (1), pp. 225-242. Utica College.