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Volume 42, September 2008

Abstracts

Linda DeRiviere

Do Economists Need to Rethink their Approaches to Modeling Intimate Partner Violence?

This paper critiques economists' past approaches to modeling the issue of intimate partner violence based on stylized facts about victims and batterers. These stylized facts are an important step in recognizing a broader range of issues than what has been narrowly formulated in economic studies to date. A key factor is the revolving door phenomenon of abused women leaving and returning to a violent union. The ways in which women react to abusive situations is shaped by time-varying and path-dependent, decision-making processes over several episodes of violence. This paper discusses how economists can extend far beyond their current thinking around the constructions of intimate partner violence. The stylized facts presented in the paper have important implications for policy approaches to the issue, particularly where it concerns abused women's potential for self-sufficiency in the labor market. *J. Econ. Issues*, September 2008, 42 (3), pp. 583-606 . University of Winnipeg.

Christian E. Weller and Kate Sabatini

From Boom to Bust: Did the Financial Fragility of Homeowners Increase in an Era of Greater Financial Deregulation?

After 1995, the United States experienced housing and mortgage booms, fuelled by increased lending from less regulated institutions, such as hedge funds. At the micro level, the housing boom may have left families with more wealth, but the mortgage boom may have increased their financial vulnerability. Using the Federal Reserve's Survey of Consumer Finances, we consider both wealth creation and a select number of financial vulnerability measures of homeowners. The data indicate that the housing

boom was not only associated with larger house values, but also moderated wealth gains and substantially greater financial vulnerability of homeowners. Both trends were more pronounced among middle-income and Hispanic families, who saw larger wealth gains, but also greater increases in financial vulnerability than their counterparts. Given the breadth of the spread in homeowners' financial vulnerability alongside sharply higher house prices, our results support the link between more deregulated financial markets and rising financial instability. *J. Econ. Issues*, September 2008, 42 (3), pp. 607-632. University of Massachusetts Boston, the Center for American Progress and Boston College School of Law.

Gregory J. Buchholz, Alberto Coustasse, Patricio Silva and Peter Hilsenrath

The Chilean Pension System at 25 Years: The Evolution of a Revolution

The 1981 reform of the Chilean pension system was revolutionary at its time. It was the first instance of a mature public Pay-As-You-Go social security system being converted into a mandatory defined contribution system managed by the private sector. This paper contends that a unique confluence of events were responsible for this change. The rise of a dictatorship in Chile, a struggling public retirement system, and a cadre of Chicago oriented economists determined to make Chile a model free market neoliberal economy. This was later followed by the Washington Consensus and the promotion of Chilean reform by the World Bank. This paper analyzes the Chilean reform and its subsequent development; evaluating it on both efficiency and equity grounds. While the evidence for efficiency gains is mixed there is little doubt that equity has suffered under the new system. Nevertheless, it continues to evolve and equity concerns are increasingly being addressed. *J. Econ. Issues*, September 2008, 42 (3), pp. 633-647. Missouri Southern State University, University of North Texas Health Science Center, Universidad Diego Portales.

Antoon Spithoven

Surfing the Baby Boom Wave in the Netherlands

Mainstream economists and liberal politicians are criticizing the Third Way as it is being applied in the Netherlands. They argue that mutual consultation precludes an efficient adaptation to disturbances. The present study analyzes changes in wage and income policy in the Netherlands until 2005. It finds that wage and income policy has proven to be flexible enough to address "new" challenges in the Netherlands. The flexibility is rooted in a culture of tolerance that allows for some breaking of working rules. The latter arises from bounded socialization, that is, the

imperfect transmission of information with respect to social working rules that result in similar but not identical copies of institutions. *J. Econ. Issues*, September 2008, 42 (3), pp. 649-672. Utrecht School of Economics.

Gilles Grolleau, Tarik Lakhel and Naoufel Mzoughi

An Introduction to the Economics of Fake Degrees

This paper critiques the multifarious ways whereby academic qualifications may be falsified in the international marketplace. The objectives are fourfold: (1) defining the main terms used such as fake degrees and diploma mills; (2) providing a brief history of fake degrees and identifying the factors that explain their recent development; (3) developing a theoretical framework to analyze fake degrees; and (4) exploring the costs and benefits of this activity and its net impact on a given society. Degrees serve instrumental and ceremonial purposes. It is argued that degree holders may be considered as members of a club. They confer to their holders excludable but non-rival property rights such as abilities, signaling and status. The paper contends that holders of fake degrees can be considered as “free riders” on these property rights, especially the status tied to legitimate degrees. *J. Econ. Issues*, September 2008, 42 (3), pp. 673-693. Laboratoire Montpelliérain d’Economie Théorique et Appliquée, Université de Bourgogne, INRA Avignon.

William H. Redmond

Voluntary Ceding of Control: Why Do People Join?

In addition to costs of time and money, joining an organization involves costs of conformity – a giving up of a certain amount of control over one’s own actions. The paper is an exploration of why this is a widespread choice. As an alternative to a cost/benefit type of analysis, social empowerment is proposed. Voluntary organizations, being a type of formal institution, are viewed as instruments which members can use for power, status and control. *J. Econ. Issues*, September 2008, 42 (3), pp. 695-707. Indiana State University.

Eduardo Fernández-Huerta

The Economic Behavior of Human Beings: The Institutional/Post-Keynesian Model

This paper attempts to present the basic features that would define a model of behavior suited to an institutional and post-Keynesian approach. To facilitate

explanation, human behavior is divided into three phases: motivation, cognition and reasoning and decision-making. Motivation appears as a process directed toward the satisfaction of a complex structure of various needs and wants. The role of emotions and the social and cognitive aspects of motivation are recognized. Moreover, it is also recognized that human beings have limited cognitive and rational capacities, and it is accepted that they are potentially creative. Partly as a consequence of that, cognition becomes a social act and knowledge of reality is subject to fundamental uncertainty. Finally, human rationality (or intelligence) is associated with a search for good solutions, and it includes elements of procedural rationality, creativity and emotional rationality. The role of habits and institutions in all these phases is stressed. *J. Econ. Issues*, September 2008, 42 (3), pp. 709-726. University of León, Spain.

Christopher J. Coyne and Peter T. Leeson

How Do Rulers Choose? Dual Domains of Discretion in Political Decision Making

This paper investigates the factors that drive ruler decision making under democracy. By dividing politicians' actions into two distinct domains and exploring their compositions, we construct a fuller and more realistic picture of politician decision making. In the non-discretionary domain, the politician's actions are clearly limited by voter desires; in the discretionary domain the politician is free to make choices as he chooses without voter repercussions. Standard neoclassical models of political behavior suggest that when votes don't matter, monetary income drives ruler behavior. While monetary pursuit may explain some ruler decisions, it leaves many other observed choices unexplained. Our non-discretionary/discretionary dichotomy highlights the up-to-now neglected role that psychic income plays in explaining otherwise unexplained ruler decisions. The case studies considered support this view. *J. Econ. Issues*, September 2008, 42 (3), pp. 727-747. West Virginia University and George Mason University.

Vladislav Valentinov

The Economics of Nonprofit Organization: In Search of an Integrative Theory

The existence of nonprofit firms has been traditionally explained by two types of theories emphasizing the market failures that these firms address and the individual motivations to found these firms. To date, these theorizing strands have been mainly disconnected from each other. To fill this gap, this paper develops an integrative theoretical understanding of nonprofit organization by demonstrating the way market failures addressed by nonprofit firms are interrelated with the motivations of nonprofit entrepreneurs. Building on the arguments of Thorstein Veblen and the theory of the division of labor, it is argued that nonprofit

organization embodies partial collective self-sufficiency necessitated by the limitations of the ability of market exchange to satisfy human needs. *J. Econ. Issues*, September 2008, 42 (3), pp. 745-761. Leibniz Institute of Agricultural Development in Central and Eastern Europe in Halle, Germany.

Prabirjit Sarkar

Trade Openness and Growth: Is There Any Link?

The present study examines the relationship between openness (trade-GDP ratio) and growth. Our cross-country panel data analysis of a sample 51 less developed countries shows that for only 11 rich and highly trade-dependent countries a higher real growth is associated with a higher trade share. Time series study of individual country experiences shows that the majority of the countries covered in the sample including the East Asian countries experienced no positive long-term relationship between openness and growth during the 1961-2002 time period. Our study of the experience of various regions and groups shows that only the Middle Income group exhibited a positive long-term relationship. *J. Econ. Issues*, September 2008, 42 (3), pp. 763-785. Jadavpur University and the University of Cambridge.

Rosario Rita Canale

Positive Effects of a Decentralized Fiscal Expansion in the European Monetary Union

This paper aims to show how state intervention within the European Monetary Union can have positive effects not only on growth but also on public balances and debt. The relation between centralized monetary policy and decentralized fiscal policy partly solves the lack of coordination between the two. Each time a fiscal expansion in an EU country is not accompanied by a Central Bank interest rate increase, the expansionary effect of public spending, initially financed through the emission of public bonds, will be reinforced by endogenous money creation due to the increase in growth. The final result, if growth exceeds the rate of interest, is not only an increase in equilibrium income, but also a reduction in debt. *J. Econ. Issues*, September 2008, 42 (3), pp. 787-802. Dipartimento di Studi Economici, Facoltà di Economia, Università di Napoli "Parthenope."

Brian Chi-ang Lin

More Government or Less Government? Further Thoughts for Promoting the Government

The purpose of this paper is to provide further thoughts for promoting the

government after reviewing the competing insights of the right-wing public choice school economists and the left-wing institutionalists in the Veblen-Commons tradition. This paper points out that big government and big business have indeed become *complements* to some extent. That is, they are symbiotic and one certainly cannot criticize (or try to remove) big government without checking big business at the same time, and vice versa. To counteract the power of corporate hegemony and to break the control of governments by privileged interests, this paper suggests that it is desirable to initiate institutional change in society toward the movement of more local government planning in promoting the local community. Such a society is not only practically consistent with the progress of sustainable development (under the “think globally, act locally” guideline) but also conceptually compatible with John Stuart Mill’s high-minded mental culture and John Maynard Keynes’ forward-looking vision of economic bliss. J. Econ. Issues, September 2008, 42 (3), pp. 803-821. National Chengchi University.

Rick Tilman

John R. Commons, the New Deal and the American Tradition of Empirical Collectivism

Abstract: Few critics will question that the high tide of the influence of American institutional economics was reached during the New Deal. John R. Commons, Thorstein Veblen and their disciples reached the apex of their impact on public policy as sources of doctrine, policy-making and advising. Commons remains an influential figure in the history of institutional economics and progressive social thought. And he resides in the American tradition of empirical collectivism as articulated by Currin V. Shields in 1952. The tradition as understood by Commons finds the ultimate locus of power in democratic majorities, not in hegemonic classes or corporate networks, and it is only by its refinement and replenishment that it can meet the demands thrust upon it. His mature theoretical work, published between 1924 and 1950, is the main source of his empirical collectivism as shown through textual exegesis and biographical extrapolation. J. Econ. Issues, September 2008, 42 (3), pp. 823-851. Northern Arizona University.

NOTES AND COMMUNICATIONS

Craig Medlen

Galbraith’s Preference Mappings: Needs and Wants Evidence from the 2005 Consumer Budget Study