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Capital Flows and Brazilian External Vulnerability. By Vanessa da Costa Val

Since the mid 1980s, the world economy has suffered a process of financial globalization characterized by a surge in capital flows between emerging and industrial-country markets. It has, thus, intensified the international capital circulation. The consolidation of this process was determined mainly by political decisions taken by the central countries. The argument underlying these decisions was based on the fact that the external openness and international integration were the only way to guarantee economic development.

Many authors argue that financial globalization can generate large benefits, mainly in the financial system development. These arguments are based on the idea that the free capital movements can bring efficiency in resource allocation to capital markets as well as improvement of the financial system. Other theoretical/empirical studies present evidence that financial liberalization can be important to economic growth and income distribution.

This new world economic dynamics, marked by a dramatic increase in international financial flows, has produced an increase in financial instability, shown in recurring financial crises especially in emerging countries. As a result, the belief that free capital mobility brings efficiency benefits and capital allocation to these economies has been discredited. During the 1990s, there were financial and exchange rate crises in Mexico, Southeast Asian countries, Russia, Brazil and Argentina. So, the capital account liberalization process has caused an increase in external vulnerability.

Although there are many favourable arguments supporting capital movements liberalization, they could be refuted because of the non-observation of the economic benefits (growth and social welfare) defended by the liberalization's theorists. So, we point out that the recent experience showing excessive dependence on external capitals in a world of strong financial instability leads to low economic resistance to external shocks, resulting in external fragility.

Based on the recent volatility and contagion movements, we intend to analyze the volatility of capital flows and the "contagion effect" that dissipates in emerging economies during periods of crises. More specifically, we intend to analyze Brazil's case.

In order to accomplish a volatility measure of capital flows to and from Brazil, we will use a specific time series econometric model, the GARCH model (generalized autoregressive conditional heteroskedascity model). It shows the most volatile financial accounts in the balance of payments.

To summarize, we intend to show that the consequences of capital flow volatility end up keeping the country in an external vulnerability and low economic growth trap. The purpose of the paper is to measure the financial account volatility of the Brazilian balance of payments, showing that the short-run capital inflows are strongly dominated by speculative movements. It thus generates impact on the domestic interest rate, public debt and country risk.

Key-words: Capital flows, Brazil, external vulnerability.

JEL classification: F32, F37, G15

Critics on Merger Simulations. By Marina Moreira da Gama

Mergers are considered anticompetitive by the mainstream theory2 when could generate two effects: the unilateral and the coordinated. The first one is related to the firm's possibility to raise price unilaterally. The second one is related to the firm's increasing of collusive behavior. To analyze quantitatively, based on a traditional theory, these merger effects is the mechanism found by the antitrust authorities to implement the competition law. More precisely, because the quantitative methods used to evaluate the coordinated effect are not well developed in mainstream theory, the modern way to approve or not a merger is to quantify its unilateral effects, that is, is to calculate the price rise in the market.

The paper's purpose is to investigate and to criticize the quantitative method used by antitrust authorities to analyze mergers unilateral effects. Until the nineties the method used by antitrust authorities was discretionary, based on a structural analysis of the market or the relevant market delimitation and the possibility of market power. Recently, the antitrust authorities have implemented a new method, called 'merger simulation' or the use of an oligopoly model with a demand system that predict the post merger prices and outputs. The problems with this new method are five, all related to its inherent implications, such that i) the dependence on the curvature properties of the demand system; ii) the assumption that marginal cost does not vary in the relevant range; iii) the simplicity of the static oligopoly model; iv) the absence of market structural change as a consequence of the merger; and v) the relationship that this new method made with the variables structure and performance, like the questionable structuralism theory.

Key-Words: Merger, Unilateral Effects, Merger Simulation

JEL: L40, L44, K21.

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2 I call the mainstream theory the microeconomic analysis that support the merger authorities in theirs decisions, basically oligopoly models like Cournot or Bertrand.

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The empirical results of testing the export-led and BOP-constrained growth model. By Virmantas Kvedaras

The paper presents an empirical analysis of the fit of the long-run specification of the demand-led and BOP-constrained growth model, which is the main Post-Keynesian alternative to the mainstream economic growth theory.

In a series of articles of the journal Applied Economics there was an extensive debate on the Balance-of-Payments (BOP)-constrained growth model and its testing. This led to a series of single-equation-based tests for the necessary condition of the BOP-constrained growth model that the BOP constraint binds (see e.g. McCombie 1997). Since then many extensions and applications of the basic BOP-constrained growth model have appeared in the related literature, but the empirical model evaluation methodology did not approach the sufficient condition that causality runs from foreign demand or exports determined by it to GDP rather than the other way round. Kvedaras (2007) utilized the standard vector error correction model (VECM) to formalize a system approach to empirical testing of both the necessary and sufficient conditions and formalized the long-run restrictions that the demand-led BOP-constrained growth model imposes on the respective economic system.

The current paper is an empirical counterpart of Kvedaras (2007). Based on the yearly data from the United Nation Statistics Devision (http://unstats.un.org/unsd/snaama/dnllist.asp) an empirical analysis is performed for more than 200 countries of statistical acceptance of the long-run restrictions imposed by the theoretical model. A special emphasis is placed on the long-run exogeneity of exports. The results based on the VECM are also compared to the outcome obtained using the standard single-equation approach. The importance of geographical aspect is evaluated that was stressed recently in Ghani (2006).

The Economic Impact of Technological Change on Subsistence Agriculture. By Luca Mantovan⋆

The study attempts to assess the differentiated impact of a green-revolution type of technology in the Ethiopian Northern Highlands. Drawing from a field investigation and from historical and anthropological studies, it should be of some relevance for that specific reality. Nevertheless, it might be of some theoretical interest as well, for it attempts to develop, in respect to a particular historical context, some ideas of the classical thought about the distribution of the agricultural surplus among different social classes in the course of interaction between technology and production relations. Moreover, it attempts to explain, through interlocked exchanges, how efficiency differentiates with one technology.

The term 'subsistence agriculture' emphasises that, contrary to firms operating in a market economy, the primary economic objective of peasant households is not chrematistic, rather the direct production of their means of subsistence. However, the terminology is at risk of misinterpretation, for those households are not autarkic units of production and consumption. They produce an overall surplus that circulates through specific exchange relations, which elude standard economic theory for three main reasons: they are differentiated according to households' capacity of production; they are of a forced nature; they are regulated by reciprocal and central institutions. Consequently, their interlinkage does not arise from individual gains-from-trade motivations coordinated by adjusting prices, rather from class-differentiated compulsion to exchange under institutionally-fixed terms of exchange.

Although such relations represent the way the community sustains its members, the support they provide can result insufficient. When a lack of demand constrains deficit producers while hiring out labour and oxen – the fixed capital of the production process – in exchange for corn – the circulating capital –, those households are likely unable to reproduce their economies without back-scaling production. They are rather forced to continuously reduce their operational holding by increasingly relying on the external market to exchange wood for corn. Furthermore, if this is not enough, after selling their residual oxen, they also attempt to hire out labour in exchange for oxen while renting out land or, if lacking the demand, they are compelled to emigrate. Hence, exchange reflects production differentiation like the latter reflects exchange feedbacks. And it is the adaptation of such an interaction to exogenous factors that underlies the historical development of the economy, those factors including erratic rainfalls or livestock epidemics, but also a market-oriented policy promoting green technology. The latter is believed to enhance food security size-neutrally, by fostering peasant production, labour productivity and purchasing power. Nevertheless, it likely deteriorates food security class-differentially, by exacerbating land under-utilisation, unemployment and market prices.

Key words: Agriculture, Technological change, Differentiation, Interlinkage, Food security.

JEL classifications: O13, O33, Q16, Q18.

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De-growth? But What about Re-distribute? By Sirisha C. Naidu

Natural environments in the global South are facing tremendous consumption pressures. While this has been going, at least since the advent of colonization and plantation economics, it has further intensified in the era of neoliberal trade regimes. New frontiers are being explored and exploited to fuel consumption needs and to achieve higher economic growth. But the benefits of resource exploitation do not just accrue to consumers and producers in the global North, the economic and political elite in the South are (equal) partners in the loot. Therefore, moving away from conventional concepts such as the North and the South, two questions assume importance: a) is economic growth desirable? And b) will de-growth and ecological sustainability automatically achieve social and environmental justice?

Much has been written, discussed and analyzed with respect to economic growth, its costs and its benefits. Ecological economists have particularly been interested in the issue of economic growth as the scale of the economy increases, thereby raising levels of resource extraction and waste generation, and that may lead to perhaps irreversible ecological consequences. It has also been argued by some that higher levels of economic growth, especially under current neoliberal regimes has led to increased extraction of economic and ecological rent, by pushing marginalized populations either onto marginal lands or into the reserve army of labor in the industrial sector; in short, that it has led to displacement and dispossession.

So de-growth is desirable from an ecological and social perspective as ecological resources are used sustainably in a way that increases intergenerational equity. Markets itself may be used as a way to achieve a sustainable economy, as is evident in the rise of green business and international environmental trade. Where markets are unable to offer a solution, the state may step in to create protected areas such as national parks and sanctuaries. The state may also create conditions conducive for private initiatives to participate in the business of conservation.

But while a sustainable economy may offer us a way out of an ecological predicament, what does it do for the goal of social and environmental justice? Evidence from around the world is indicative of the fact that conservation efforts by both markets and states have the potential for exclusion of certain groups within society. The term “conservation refugees” is used to describe people displaced due to projects implemented by the state though similar effects may be felt when dispossession occurs due to the implementation of market-based instruments, presumably to achieve a sustainable economy or conservation. Hence, conservation can be as harmful to marginalized people as economic growth.

In order to create a viable alternative that addresses ecological and social concerns, taking a stand on economic growth is insufficient; we also need to more clear on what alternatives are acceptable and what are not. This will require more interactions between ecological economists and those working on issues of social and environmental justice.

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Technology and Psychology: a Mechanism of Anthropogenic Crises by Akop P. Nazaretyan, PhD

After investigating numerous episodes of man-made local, regional and global crises in different historical epochs, we developed a model for quantifying a systemic relationship between three variables for a given society: its technological development, the quality of regulatory mechanisms, and its internal viability. Thus we discovered a persistent pattern, which we named the law of techno-humanitarian balance [1-3]. It states that the higher up a society's technologies, both producing and military, the more refined the regulatory means required for its proper functioning.

We distinguish between external and internal sustainability. The former, i.e. a society's ability to withstand natural and/or geopolitical fluctuations increases in proportion to its technological potential. The latter – its ability to avoid endogenous catastrophes – is a more delicate parameter. It declines if technological growth is not complemented by improving means of social regulation, including Law&Order, cultural values and norms. The imbalanced society becomes more vulnerable to popular mental mood shifts, the whims of influential leaders, and other unpredictable factors.

As technological power outstrips the quality of cultural regulation, a specific Homo prae-crisimos syndrome develops: mass euphoria, a sense of omnipotence and permissiveness, higher needs and ambitions, etc. Sooner or later, this development conflicts with the scarcity of resources, and the society falls a victim to its own imbalanced might.

We suggest that this law has served as a selective mechanism all over the human history and prehistory: imbalanced societies were successively discarded by self-destroying their natural or political habitats. If, instead, a particular society found a radical way out of an evolutionary deadlock, this marked a turning point of history, and complex social, psychological and cultural transformations ensued. From the Lower Paleolithic up to our days, we found at least seven such revolutions. They unfolded on the basis of new technologies with higher productivity, more effective information processing, more diversified and flexible social structures, and more refined value systems.

Non-trivial corollaries of the hypothesis were used for verifying it. One is that, while technological power of destruction along with population densities have been growing for millennia, the ratio of violence victims to the overall population has not. To test this, we introduced a special comparative index, Bloodshed Ratio (BR) – the ratio of average deliberate killings for certain period ($k(\Delta t)$) to the population number ($p(\Delta t)$). Calculating this index for different epochs and societies (using available data and special formulas), in the long run, we found an irregular downward trend [3-4].

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Wage bargaining coordination in different growth-regimes by Paul Ramskogler

The coordination of wage bargaining is often regarded as an important and efficient strategy to improve macroeconomic outcomes (Iversen 1998). Curiously only recently have heterodox authors started to consider the bargaining process explicitly (Hein 2002, Dullien 2004). The proposed paper investigates the effects of wage bargaining coordination within different wage-regimes as explored by Marglin and Badhuri (1990). It is argued that the coordination of wage bargaining boosts the unemployment threat and leads in principal to wage restraint. As a result it makes a difference whether coordination takes place in a profit-led or in a wage-led economy. In the wage-led case coordination might even lead to adverse effects due to excessive wage restraint.

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Elegance vs. Usefulness: Why is the modern economist reluctant to dirty his hands with economic and social history? Some reflections after the Cambridge controversies in capital theory. By Andrés Lazzarini

It is well known that economic and social history has played a key role in the birth and development of *political economy* from Adam Smith to David Ricardo. Many, if not all of the most important analyses of this school are impregnated with elements coming from economic and social history. But, as is well known too, this economic approach was *submerged* and was replaced, at the turn of the twentieth century, by a radically different theoretical approach. Since then, of the social sciences established so far it has in all probability been *economics* the most time-honoured of the group. Such a reputation has been fostered by applying general and, notably, impersonal theoretical premises which, it was believed, could explain almost every single human action related to the distribution of the social product. Thus a seductive and very elegant explanatory framework relying on supply-and-demand mathematical functions was erected at that time, and somehow keeps going up to-day.

The economic theory of supply and demand has, since then, systematically excluded the role of economic and social history from the 'fundamentals', which ultimately explain the economic phenomena. However, the results of the Cambridge controversies in the theory of capital have demonstrated that the supply-and-demand approach, or the "neo-classical" theory, is at serious risk, since it cannot in general be derived downward-sloping demand curves for the factors of production (labour and "capital").

We argue that despite the results which emerged in the Cambridge debates between two radically different schools of economic thought still most of the economists take no notice of the need for a different path in economic research, notably by re-incorporating economic and social history into the core of the theory, and are nonetheless content with a "general" theory which has often revealed itself inappropriate to deal with real economies. In this paper it is contended that it is the usefulness of a theory, rather than its apparent elegance, what must be brought to the foreground in order to better come to grips with real economies, and that the Cambridge controversies can provide the necessary reflection for a return to more difficult, but more interesting, paths of social analyses which must, at any rate, include the economic and social history.

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"Polanyian Lessons for our Days: The Case of Brazil. By Ramón García Fernández and Bernardo Stuhlberger Wjuniski

Karl Polanyi suggested in his "Great Transformation" that the development of markets for what he called "fictitious commodities", i.e., land, labor and money, has disruptive effects on the societies in which they are embedded, and that consequently they must be controlled. Clashes between the forces trying to liberate these markets, and the society(ies) trying to control them, characterize what Polanyi called the "double movement". With the advances of globalization, international pressures to develop these markets increased in the whole world; in contrast, the concrete measures to control the dire impacts of this process must be taken by each nation-state. One very interesting case is the one of Brazil. In Brazil, a social-democratic party governed for eight years (1995-2002) and later a leftist party (the Workers Party), took office until now (for the period 2003-2010). Although supposedly these parties should have taken measures to resist this situation, especially the latter, they have had enormous difficulties, and sometimes lack of interest, to oppose the advancement of these markets.

It must be reminded that the labor and financial markets were completely constituted in Brazil much earlier and that the globalization affects them directly: the need to become competitive forces each country to imitate the others, pushing the international standards to its lowest possible levels. So, the liberalization of the financial markets summed up in Brazil with some of the worst (and maintained) characteristics of the previously closed banking sector: a strong oligopoly, which actually became more concentrated, with extraordinary spreads, in the country that has had the highest worldwide real interest rate for some years. Meanwhile, the so-called "flexibilization" of the labor markets did not advance much, except for some (perhaps reasonable) changes in the retirement and pension laws.

In contrast, the market for land always is mainly an internal issue: there are not international demands to modify the property of land (at least in a country in which common property was already insignificant) neither its use, except for the "green" pressures to preserve the rainforest, which (unfortunately) have not achieved a great impact. Of course, the globalization of the international markets for agricultural goods, recently increased with the boom of the biomass fuels, encourages the incorporation of new land on the open frontier, but the pace of this process has been mainly determined at the national level. An important clash between a traditional "slash and burn" mentality (both of big business and of small proprietors) and a recently stronger conservationist perspective has developed in the country during the last decade, reducing, but not stopping, the rhythm of the destruction of the rainforest and other ecosystems.

Our paper aims to study these problems, presenting firstly the Polanyian worldview, later discussing some proposals for a contemporary international "Great Transformation", and finally presenting these disruptive advancements of the markets for fictitious commodities in Brazil, commenting some policies of the recent governments dealing with them.

The Ongoing Demographic Shift and the Economy of Small Series. By Lucy Badalian and Victor Krivorotov

Abstract. During the millennia of history, the unprecedented demographic curve of humanity shot up defying occasional bloody setbacks, such as the Justinian's plaque of the 6th century, the 1348 Black Death, the religious wars of the 16th century…, and, most recently, the two world wars of the 20th century. It has been shown that, most closely, its steep rise fits the hyperbolic curve quite unlike the more oblique demographic patterns typical for animals. Using Volterra Lotka type equations we show that the N^2 member modeling this behavior (the more humans the better their reproduction) suppresses the negative members measuring the impact of competition, more pronounced in reproductive patterns of animals. This can only be explained by the disproportional role of cooperation in our survival as a species. Thus, humans gained an evolutionary advantage by developing unique means to propagate much faster than their animal brethren – despite the toll taken by the much slower maturing of human youths and the overall higher price of raising them – by emphasizing their mutual cooperation over competition.

It is a well known fact that, in traditional multigenerational families, children are taken care of within a complex hierarchical structure of age-groups encompassing the entire community. This reduces the burden of childrearing while freeing the adults of reproductive age for economic activities. The ongoing demographic shift with a steep drop in reproduction rate within urbanized societies can thus be explained by the demise of this age-old adaptation. This increased the cost of human reproduction to unmanageable levels. The adaptation of age groups is either replaced by costly babysitters, institutional settings or street gangs, where youth is indoctrinated within the street culture. The existing trends point at the further drop of reproduction, which becomes unaffordable within the urbanized population. Since stoppage of the growth within a closed system usually causes a catastrophic die-out, stabilization of a human population at any reasonable level may mean a rebirth, possibly, in a different form, of the older institute of communal multigenerational family. We suggest that this may be possible within a new economy of small series within cooperative neighborhoods as opposed to the mass production of the urbanized world, which emphasizes competition.

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Approaches to the Concept of Identity in Economics: An Application to the Economic Analysis of the Firm. By Beatrice Boulu

The aim of this paper is to expose the implications of the different approaches to the concept of identity onto the economic analysis of the firm. This proposal relies on the hypothesis that the firm constitutes a context of identification (Simon, 1991; Hodgson, 1996).

The concept of identity - that was first introduced by Sen (1977) - has been gaining audience among economists (Davis 1995, 2003, 2004, 2007, Kirman and Teschl, 2004, Sen, 1999, 2000, 2004) since Akerlof and Kranton incorporated it into a formal (2000, 2002, 2005). This renewal of interest raises epistemological issues and theoretical issues.

The concept of identity was actually first used by psychologists, sociologists and law scholars (Hill, 2007). As a consequence, numerous competing conceptions of the concept have been derived in Economics from these initial approaches. They correspond to different theoretical frameworks.

Akerlof and Kranton (2000) explicitly claim that they "incorporate the psychology and sociology of identity into an economic model of behaviour". They strongly relate their conception to identity to the social psychology approach as the role of anxiety in identification and behavioural prescriptions. John B. Davis (2006) argues that the Akerlof and Kranton contributions can be seen as a neoclassical strategy.

John B. Davis (2007) designs a theoretical framework that is based on a different approach to the concept of identity. It changes the standard utility function by making the individual a producer of its own identity. The function represents the individual instead of its utility. The incorporation of personal identity allows the multiple selves analysis and the individuation problem that are a primer importance in the analysis of identification within organizations such as the firm.

Such an approach to the concept of identity allows a better understanding and a better description of the complexity of individual identity. It integrates the complexity of the economic context in which individuals evolves into the theoretical representation of the individual. Further inquiry on the impact of the sociological-based approach to identity shall help addressing the issue of the firm as a context of identification. An heterodox approach to the concept of identity allows the incorporation of institutions into the economic analysis of the firm.

The implications of the use of such an approach to the concept of identity will be exposed. They are the modification of the structure of costs, the description of the make or buy decision motivations, the description of path dependency and the description of the firm as an uncertainty reduction device. The introduction of the concept of individual identity helps also analysing firms' internal conflicts and provides a complementary argument to the definition of the boundaries of the firm.

(419 words)

Keywords: Interdisciplinary approaches, Identity, Firm, Institutions.
JEL: L20, D01, D63, Z13.

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Re-embedding Money: Complementary Currencies and Shared Monetary Governance

Shira D. Jones, University of Bath

Karl Polanyi's description of money as one of the fictitious commodities in market societies remains to a large extent under-theorized. His concept of 'special purpose currencies' as a means for re-embedding money has a, previously unexamined, relevance to modern Complementary Currencies in at least two ways. First, there is the CCs functional potential to de-commodify money. Second, there are the more socially embedded forms of governance that accompany CCs. The latteris very important, given that governance mediates the relationship between 'general money' and the institutional responses to Polanyi's 'special purpose money'. While general money tends to be regulated through closed forms of governance, special purpose money has the potential to be more amenable to shared forms of monetary governance, partly due to their more extensive socially embedded structures. Thus, with respect to money, the concept of embeddedness may be enhanced to explain how the relationship between general and special purpose monetary institutions is mediated by regulatory frameworks. This study asserts that the 'embedding' shared governance of many CCs (Polanyi's 'special purpose moneys') contrasts with the 'dis-embedding' governance of general money. And further, responses to special purpose monetary institutions from regulatory framework bodies seem to discourage attempts by new forms of monetary institutions to devolve monetary governance. These issues are examined through the lens of embeddedness, monetary institutional resistance, innovation precedents in history, and by comparing national regulatory frameworks' responses to monetary institutional innovations.