Oeconomicus, Volume IV, Fall 2000

ISSN: 1546-2803

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Forward

The present issue of *Oeconomicus* includes articles by graduate students in the Economics Department, as well as two interviews with two of our prestigious guests this semester. The authors would like to thank Professor Robert Brazelton, Professor Mathew Forstater, Professor Frederic Lee, Professor James Sturgeon, Professor Karen Vorst, Professor L. Randall Wray and Professor Ben Young for supervising the work of their students and for making many valuable suggestions concerning the interviews published in this issue.

The first interview is with Professor Alain Parguez (University of Franche-Compté, Besançon, France, and University of Ottawa, Canada). He has worked extensively on developing a genuine general theory of capitalism that is a monetary production economy, which he labeled the "theory of the monetary circuit." He has written extensively on monetary policy, crisis theory and economic policy, including many articles on the impact of austerity measures, which, he believes, are the cause of world crises. He was the editor of *Monnaie et Production*, and has written numerous articles and books. He is currently writing a book on the General Theory of the Monetary Circuit.

The second interview is with Professor J.A. Kregel who is Professor in the Department of Economics of *the Università Degli Studi di Bologna* and Adjunct Professor of International Economics at the Johns Hopkins University Paul Nitze School of Advanced International Studies where he has also served as Associate Director of its Bologna Center from 1987-90. Professor Kregel is a visiting Professor at UMKC this semester. He is currently serving as High Level Expert in International Finance and Macroeconomics in the New York Liaison Office of the United Nations Conference on Trade and Development (UNCTAD).

On behalf of all the students in the Economics Department, we would like to thank the Center for Full Employment and Price Stability (C-FEPS) and the Economics Department for inviting many prestigious economists, namely Professor Gary Dimsky (University of California Riverside), Professor James K. Galbraith (University of Texas Austin), Professor Jan A. Kregel (UNCTAD), Professor Alain Parguez and Professor James T. Peach (New Mexico State University).

The reader will find a list of books and articles published by Professor Alain Parguez and Professor J.A. Kregel at the end of each interview. Material in quotes that is enclosed by square brackets [] has been added by the authors and/or the editors.

The editors:
Ben Young
&
Fadhel Kaboub

Conversation with Alain Parguez*

By Fadhel Kaboub

Alain Parguez is Professor of Economics at the University of Franche-Compté, Besançon, France, and is associated with the Economics Department at the University of Ottawa, Canada. He has worked extensively on developing a genuine general theory of capitalism, that is a monetary production economy, which he labeled the theory of the monetary circuit. He has written extensively on monetary policy, crisis theory and economic policy, including many articles on the impact of austerity measures, which he believes are the cause of world crises. He was the editor of *Monnaie et Production*, and has written numerous articles and books. He is currently writing a book on the General Theory of the Monetary Circuit. The reader will find a selection of Professor Parguez's publications at the end of this interview.

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Oeconomicus: Skidelsky in his biography of Keynes (Volume II) has argued that "Keynes' inspiration was radical but his purpose conservative." How did Keynes reconcile these two opposing forces?

Parguez: I think that it depends on the kind of approach. Keynes' approach to economic theory was, of course, a true revolution because he understood that there was nothing different between the so-called classical economics inherited from Smith Ricardo and the Neoclassical economics. What was crucial in the whole classical legacy was the ex-ante saving constraint. Society was constrained by the ex-ante real fund generated by thriftiness or voluntary saving. The neoclassical just added market mechanism to support the saving constraint. So, Keynes' scientific project was to reject the whole classical research program from Smith and Ricardo onwards, including of course the neoclassical system. So, it was obviously not a conservative approach to economic theory.

Sometimes Keynes had been accused, including by myself, of having been too cautious in, for instance, maintaining some aspects of neoclassical economics like the equality between the real wage and the marginal productivity of labor or by maintaining the Marshallian price theory. But the truth is that those are aspects of neoclassical theory, and, I think that they were of secondary importance for Keynes.

As soon as the saving constraint postulate was rejected, the equality between the real wage and the marginal product of labor was of no importance. But did Keynes have a political or social agenda that could be deemed as conservative? I think that Keynes was absolutely pessimistic on the possibility of changing human nature and changing society. Keynes had a vision of society, which was ruled by an absolute loss of the future, and because society, which is, of course, the ruling class, was absolutely afraid of committing itself to the future. That explains the so-called preference for liquidity and the desire to hold wealth and capital in the form of money. So, nothing could be done as long as it was

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* Questions in this interview are inspired by interviews in: Snowdon, B., Vane, H. and Wynarczyk, P. (1994), *A Modern Guide to Macroeconomics: An Introduction to Competing Schools of Thought*. Northampton MA: Edward Elgar Publishing.

impossible to change the attitude of the ruling class relative to the future. Keynes, of course, disregarded social democrats he just had contempt for them. He also disregarded and rejected the Russian project.

The main lesson to be taught by the *General Theory* is that nothing could be done except of course the mysterious and mythical "euthanasia" of the rentier. It is a pessimistic view of the future, which explains why there is no economic policy proposal in the economics of Keynes. I think that when he wrote the *General Theory*, he did not believe in the possibility of an economic policy sustaining full employment in the long run.

Oeconomicus: The neoclassical synthesis interpretation of the *General Theory* made Keynes part of the "broader" neoclassical theory. How has it affected economic theory and policy since then from its "Keynesian route?"

Parguez: Since Hicks [1937], the neoclassical economists endeavored to integrate Keynes into their framework. Why did Keynes do nothing against the IS-LM model for instance? I think that maybe the explanation lies in the fact that Keynes believed that Hicks' interpretation maintained his rejection of the saving constraint. But the reinterpretation of Keynes first by Hicks, next by the so-called disequilibrium school, and then by the Neo-Keynesians was of course an explanation of the survival neoclassical economics, because nothing could be done to debunk the neoclassical system. Of course, this interpretation was totally contradicting the core of the *General Theory*. But very few people understood what Keynes really had in mind, and since the neoclassical could convince that Keynes was part of their research program, the debate was over.

***Oeconomicus*:** In 1993, Robert Lucas was asked the following question: "should students of macroeconomics still read the *General Theory*?" his answer was simply: "No". What would be your answer to this question? And why?

Parguez: Well, of course, students should read the *General Theory*, and they should not read Robert Lucas. In the future people will ignore the very name of Lucas. My answer to this question could be: How many economists of the 20th century are remembered by the public at large? People now remember Einstein; they remember Freud; and, they remember Keynes. So, Keynes is one of the very few characters who had access to the intellectual pantheon of the 20th century. So, students should read Keynes, and, of course, they should read Marx; while, of course, they should not read most of the textbooks, which are an insult to science and logic.

***Oeconomicus*:** Joan Robinson argued that Keynes "was himself partly to blame for the perversion of his ideas" and that he "himself began the reconstruction of the orthodox scheme that he had shattered." What do you think are the main reasons for the conflicting interpretations of the *General Theory*?

Parguez: Joan Robinson is right. The book is obviously poorly articulated and sometimes Keynes himself is extremely obscure, and maybe this could explain the success of the book. Keynes never really explained in the *General Theory* what he really had in mind and so the reader must try to discover the Ariadne's thread in Keynes. On this point Keynes is very different from Marx, and as I told you, there are many chapters in the *General Theory* that are pure Marshallian. When Keynes talked about price theory, it's a pure Marshallian theory. Chapter 17, on the own rate of interest, can be interpreted in a very conventional classical way. Why was Keynes unable or unwilling to go beyond those failures? It's extremely difficult to know. Obviously Keynes was very British in the sense that logic had never been very attractive to British writers, with some exceptions of course. On the other side, Keynes was maybe torn between on one side his project of building and bringing about a new vision of economics, and on the other side maybe his unwillingness to reject many aspects of the traditional system.

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Oeconomicus**:** Expectations play a major role in economic analysis. What are your views of the rational expectations hypothesis?

Parguez: First, I would commend little of the word "expectations." I think that Keynes should have used the term "anticipations" because what Keynes means by expectations is an event that doesn't exist yet, which could exist in the future, but on which no probability could be collected. While the so-called rational expectations hypothesis is maybe the last form of the General Equilibrium, because since people are rational, it is as if they could know what [would] exist in the future. So, the rational expectations hypothesis is substituted for the Walrasian auctioneer; it is an ultimate generalization of the neoclassical program, and the rational expectations contradict the concept of Keynesian expectations.

Oeconomicus**:** Why do you think there is more consensus among economists over microeconomic compared to macroeconomic issues?

Parguez: Microeconomics was born as the core of the neoclassical research program. Neoclassical economics was created as microeconomic system, and it never had macroeconomic foundations. Microeconomics is neoclassical and there cannot be any microeconomics other than neoclassical. But, of course, by microeconomics I mean the abstract research program rooted into specific assumptions connected to artificial homogenous agents and of course independent from any kind of institutional framework. So, there is no debate, and there never had been a debate on microeconomics. While, of course, there is a debate on macroeconomics because there is a misunderstanding of what is really or should be macroeconomics.

[See page 17 for comments from Professor Frederic Lee]

Oeconomicus**:** Do you feel that the main differences among macroeconomists today are over empirical or theoretical matters?

Parguez: They are only on theoretical framework because abstracting from the question of the possibility of rooting theory into empirical research. Most economists are completely indifferent to what exists in the real world. The differences are in theories which are connected with differences, maybe rooted into ideology and social vision, and also on the role economists want to play. Most economists behave as if there were social engineers and pure technocrats, and that's maybe the major difference in macro.

***Oeconomicus*:** Do you see any signs of an emerging consensus in macroeconomics, and if so what form is it likely to take?

Parguez: For the moment, and I'm deeply worried about this fact, there is not the least consensus. There should be a consensus, and if not, I don't bet much on the survival of economics. So, the question is why is there no consensus while there must be and there should be one? Why those never ending debates on the basic principals, which doesn't exist in other scientific fields?

***Oeconomicus*:** Is economics an exact science?

Parguez: There are no exact sciences. There are more or less exact sciences, and, therefore, there are no exact sciences. So, to answer your question, I would say yes. By saying yes, I don't mean a totalitarian system. But if we reject the assumption that there could be some truth, economics doesn't exist at all. That doesn't mean, of course, that algebra and mathematics are not exact sciences. But, yes there should be some agreement on a unified theory; which, of course, can evolve and must evolve in the course of time. One of the worst mistakes of many economists is that they are fascinated by the postulate that there is an exact science. No! There has been a ceasing change in scientific paradigm, for instance, in physics and in any other kind of scientific field.

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***Oeconomicus*:** What have been the main influences on your own work?

Parguez: First, of course, Marx and Keynes. I read Marx when I was around 15 or 16, and I read Keynes a little later. When I began studying economics, I had some kind of pluridisciplinary course. I was absolutely outraged by the total inconsistency of neoclassical economics. So, I tried to use my readings of Marx and Keynes to understand what was going on. But at that time I was absolutely isolated not only in France but also elsewhere because economists are quite well known for their aversion to new ideas.

***Oeconomicus*:** What is the best book you have ever read in economics?

Parguez: The best book… what I would say could surprise someone… I would say Marx, *Das Kapital.*

***Oeconomicus*:** What are the main critiques that you could address to Marx?

Parguez: For a long time I thought that the theory of surplus value in Book I is too similar to the Smith-Ricardo theory of value, which ignores the very existence of money, and, of course, the demand constraint. Therefore, Marx's analysis of capitalism in Book I contradicts the essentiality of money which distinguishes the capitalist economy from the despotic or command economy.

***Oeconomicus*:** And what is the best book (not related to economics) you have ever read?

Parguez: *Ulysse* by James Joyce.

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***Oeconomicus*:** What are the fundamental propositions of the monetary circuit theory?

Parguez: The first proposition is that money is essential because it is the existence condition, or the crucial material infrastructure of the economic system, which is the capitalist system. The second proposition is that, money is essential because it is created to sustain or allow expenditures by the State, firms, and households, which determines the creation of wealth. If money is created to allow expenditures that are deemed necessary, it should be, therefore, destroyed when those expenditures are undertaken, which means that money should be destroyed in what I call "the reflux stage of the circuit" when taxes are collected and when firms earn their receipts (including their profits). So, money is created to be destroyed. The sole function of money is therefore, to be the unit of accounting wealth and, of course, to be the means of acquisition of labor and real resources.

The demand for money, which exists in both neoclassical and Keynesian economics, doesn't exist. Therefore, there cannot be some monetary equilibrium between the stock of money and the demand for money. Money is therefore, endogenous, which means that money is created because it is required to undertake expenditures, and it is created, of course, by the State and/or by Banks. Money is therefore, part of the accumulation process of society. But it obviously includes also the role of the State, as long as the State expenditures are themselves part of the accumulation process of society. In a monetary economy, saving doesn't exist as a constraint, and saving is just the reflect (it's some kind of mirror image) of prior expenditures.

***Oeconomicus*:** What are the policy implications of the monetary circuit theory?

Parguez: The first implication is that economic policy is possible. This may seem trivial, but we are now in a time where the ruling elite rejects the very notion of economic policy and economic intervention. In the Western culture, the ruling ideology is an absolute material determinism. The laws of capitalism rule supreme, and nothing can be done but just abide to the law of capitalism. So, as long as we use the theory of the monetary circuit, unemployment is always possible, and it is the normal state of the system. There is no mechanism suppressing unemployment. So, a policy of full employment is required. But no policy against unemployment can be implemented without a deep intervention of the State in the economic system, which means absolute control of the central bank, rejecting any idea of constraint on public expenditure, and changing the distribution of income of society. So, the major conclusion is that there is an economic policy, such a policy is required to attain full employment and to prevent recurrent economic crisis. The role of economics is not to manage society but to transform society.

Oeconomicus**:** What are similarities and differences between the views of the monetary circuit theorists and the Post Keynesians*?*

Parguez: First, the obsessive reference to Keynes (the Keynes of the *General Theory*). I think that nothing can be maintained of the analytical framework of the *General Theory*. There has been some debate. I have read some articles that said that I have been more inspired by Marx, that's possible. The second difference is that being too much faithful to Keynes, the Post Keynesians don't have a consistent theory of money. They either maintained some kind of a very conventional theory of money supply and money demand, debating on the slope of the curves, or they ignore money by wishing for instance to reach some kind of synthesis of Keynes and Sraffa, which is absurd in my opinion. Third, I think that the Post Keynesians maintain some kind of equilibrium structure of the system while they completely reject this. They pay very poor attention to the State, while; I think that the monetary theory of the State is absolutely crucial to an understanding of the theory of money. Finally, the Post Keynesians after 50 years of debate, they never had a sensible vision of economic policy. For instance, I am extremely concerned by the fact that Post Keynesians had nothing to say on what happened in the Eastern economies. I don't know any Post Keynesian work on this issue.

Oeconomicus**:** Do you think it is possible to marry together the contributions of Keynes and Sraffa? And why?

Parguez: It is absolutely impossible because Sraffa's model is rooted into the Ricardian economics. It is some kind of formalization and generalization of the economics of Ricardo. There is a real surplus which is given and which must be redistributed. It is, therefore, an equilibrium model. Money cannot exist or doesn't exist. There is obviously no demand constraint in the system, and, therefore, it is contradicting the idea of Keynes that the crucial division was between those who maintain the saving or surplus constraint and those who reject it. So, I think that reconciliation between them is impossible and irrelevant.

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Oeconomicus**:** Mankiw (1989) argued that: "all scientists, including economists, strive for theories that are both internally and externally consistent." Do you think that a trade-off between internal and external consistency is inevitable?

Parguez: I never really understood the difference between internal and external consistency. Let me explain my point. We can, of course, find in a theory gross common-sense logical mistakes, but usually we discover the so-called internal inconsistency because we refer to an external logical system. It is impossible to interpret a system without abstracting from our own beliefs or logical framework. So, I don't think that the distinction is relevant. Neoclassical economics is consistent as long as we accept and maintain its framework. It could be argued that it became inconsistent when neoclassical economists wished to extend their program to labor and production. But if we find those inconsistencies, it is because we already have some vision of what should be a theory of labor and production.

Oeconomicus**:** Studying the history of economic thought is essential for an understanding of the current political economy. This field of study is, however, not a required class in almost all the graduate programs in Europe and North America. Furthermore, it is often nonexistent. Can we explain this phenomenon as an opposition to the emergence of more heterodox economists?

Parguez: I would say yes, because as long as students are not taught the past, they are always tempted to believe that what they are taught is some kind of eternal truth, and, so, they cannot imagine that there could be other theories of logical framework. This explains. Of course, why courses in history of economic thought are suppressed. I would add that it is impossible to teach economic thought abstracting from the historical context. It is impossible, for instance, to explain Adam Smith or Ricardo abstracting from the context of their time.

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Oeconomicus**:** It seems that the Internet Economy (or the so-called New Economy) has overtaken the U.S. economy. Is the Internet the dynamic factor of growth that explains the current, longest economic expansion in the US history? If so, is it a sustainable growth factor?

Parguez: First, I think that the Internet is some kind of exotic or marginal aspect of what is deemed the New Economy. The major aspect is the use by all industries of the new techniques derived from computerization, which helped tremendous increase in labor productivity or in Marshallian terms, labor exploitation. But neither the Internet nor the use of computers are sufficient to explain the survival of growth because what matters is to generate enough aggregate demand to absorb the new output. Technology itself is not ruled by Say's law. So, what has sustained the system has been the long-run increase (in the U.S. at least) in household indebtedness at the same time when money creation was subsidizing financial markets.

Oeconomicus**:** The U.S. government is running a fiscal surplus for the two last years and probably this year also? Do you see any signs of a deep recession for the U.S. economy? And why?

Parguez: If we use the notion of full employment budget, the U.S. is running a surplus maybe for the last 5 years, and now full employment surplus should be quite higher. The economy is obviously extremely fragile, and, on this point, comparison could be drawn with what happened in the 1920's. The U.S. economy is sustained by a growing ratio of household debt relative to household income, by the generalization of the control of U.S. firms over the so-called emerging countries, including, of course, the eastern economies. So, it is an extremely fragile situation.

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***Oeconomicus*:** The world has witnessed enormous economic development in recent decades, but the generation of wealth and prosperity has been very uneven. The end of the Cold War and the accelerated emergence of the global economy have not solved persistent problems of extreme poverty, indebtedness, underdevelopment and trade imbalances in the developing countries. After numerous decades of U.N. "development" programs, little advance has been made. What do you think are the barriers to economic development in these countries?

Parguez: The first remark, which is not absurd, is what do we exactly mean by development? Because when you look at the conventional literature, for instance, they think that what happened in Chile for instance, or in other developing countries, it is economic development. When market structure is imposed, leading to the total collapse of the existing structure, it is for them development. Rising inequalities are now looked at as a proof of economic development. Obviously this is not development; everybody should know that. Remember what happened in the former Soviet Union when capitalist economy was imposed by authoritarian decrees, or what happened in the 1918 revolution, when Lenin imposed by decree collectivization of Stalin, and communism had been imposed by decree. So, it is looked at as development, but it is not. So, the barriers to economic development are mainly the fact that for the ruling elite of the Western societies development is synonymous with accelerating the authoritarian or forced imposition of market capitalist structure on existing societies and integrating those societies in the Western economy.

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***Oeconomicus*:** What is your view about the argument that unemployment is high in Europe because of the existence of strong unions, minimum wage regulation, and welfare programs; whereas, in the U.S. it is low because of weak unions, less welfare programs and unemployment compensation?

Parguez: It is really a proof that at the so-called age of information, economic analysts are more and more ignorant. The so-called labor markets in Europe are perfectly flexible. In France, you can fire your whole labor force as long as you invoke the so-called "economic necessity." There is, according to the law, the possibility of some control, but who can control the economic necessity?

Contrary to what many people think, unions are not strong in many European countries. In France, they are extremely weak. The rate of unionization in France is lower than in the U.S., but it is higher in Germany. According to a new research by James K. Galbraith, inequalities, for instance, are higher in the European Union than in the U.S. Of course, I don't say that the U.S. is the worker's paradise, and Randy Wray is quite correct when he said that there is a lot more unemployment in the U.S. with more than 2 million people in jail most of them are black. This is also true in most European countries. But it is obvious that in the U.S. there is now high employment with a tendency of falling real income compensated by debt. In Europe we have a very high rate of unemployment with falling real income, which is not compensated by household debt.

Oeconomicus**:** What is your evaluation of the "35 hours/week" program implemented in France?

Parguez: This is a very interesting question. The 35 hours law had been passed by the government because French technocrats believed that there is no demand constraint on the level of employment, so the unique possibility to increase employment is to reduce the timework. Why 35 hours; why not less? That, I don't know. But, as far as I know, the impact on employment has been very small, and the law has been used to increase flexibility. For instance, according to the old labor law, in most activities people were not working on Sunday and at night. But now, according to the new law, firms or the so-called "l'Association du Patronat Français" imposed to workers to work at night and on Sunday. So, it has been used to increase the productivity of labor by changing the labor conditions. So, now it has been used as a weapon against workers. And you know that the average wage in France is very low (8000ff/month). So, before this new law, workers used to increase their income by increasing the number of hours worked. But now, it's forbidden. So, the impact has been a fall in the disposable income of many workers and employee's families.

Oeconomicus**:** Do you think that the huge effort undertaken by the European countries during the last decade to harmonize and standardize their monetary and fiscal policies seems to be working so far?

Parguez: Of course, now there is no more a national monetary policy; since, according to the European treatise, the independent European Central Bank is in charge of the monetary policy. But, in the field of fiscal policy, there is no harmonization. But what has been done is to impose harsh constraints on fiscal policy. For instance, now according to the Treaty of Amsterdam the so-called "growth and stability pact," members of the European Union are obliged to attain a surplus. They are obliged to never have a public debt superior to 60 per cent of their GDP. So, there have been a growing number of very harsh constraints the impact of which is to freeze and paralyze fiscal policy.

Oeconomicus**:** Is the European Union viable without a substantial educational and cultural integration in order to ensure a flexible movement of labor and capital?

Parguez: For the moment, the monetary union has been a pure elitist and technocratic ideology, and a large majority of the population is absolutely indifferent to the very idea of the European Union. The European unification has been, since the start, an authoritarian and elitist project, pushed forward to implement what was called "the new economic order." In a paper I wrote on this question, for instance, the first blueprint of the monetary union is a pact of 1932 between the finance Minister of Nazi Germany and the finance Minister of the Vichy regime. So, it was an authoritarian and conservative program. It could seem now that the European Union cannot survive if there is no move towards some kind of "United States of Europe" with, as you said, free circulation of capital and labor. For the moment, we have this kind of circulation of capital, but, of course, we don't have any effective circulation of labor. And what is on the agenda now is to absorb Eastern Europe into the monetary union because it will be some kind of huge pool of cheap labor and a source for investment. But, nobody in the European elite wants to have a European federation, partly because the population is indifferent. On the other hand, if Europe had some kind of federal structure, there should be a genuine effective European assembly and, therefore, a democratic control of the European process, which is not at all now on their agenda.

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Oeconomicus**:** If you were not an economist, what would you like to be? A politician?

Parguez: As I told you, for some time I never believed that I would be an economist. I started by studying history, law, mathematics, sociology, and political science. I turned to economics because I believed that it was maybe the most general vision, which could be useful. Of course, I was always involved in politics. I don't think that I could be, in fact, a politician because all the politicians I knew believed in nothing and had no vision. In the late 1970's and early 1980's I had worked with François Mitterrand's chief advisor, Jacques Atali. So, I had been involved in the expert economic team working with and for François Mitterrand. But it was a very disappointing experience. When I discovered that all these people were absolutely obsessed by orthodox economic policy --balancing the budget, deflating real wage-- they had not the least long-run vision. So, it was absolutely impossible to discuss with them.

Oeconomicus**:** During this interview your have used the word "logic several times. Some philosophers argued that "logic is the art of fooling ourselves with total confidence." How would you define logic?

Parguez: Logic is obviously an intellectual conception. The argument is not new of course. I think that the existence condition of science and human kind, maybe, is to believe or to postulate that (in some way) there is some truth and that the principle of contradiction applies. And if we reject the very notion of logic, there is not the least possibility of seeing anything. You can raise the question (which is a very old one, it happened in the time of Aristotle) "Is there one logic? Or, are there many logics? Can we think of a society without logic?" I don't think so. Maybe people believe that Western civilization, for instance, differs from non-Western cultures because it is rooted into the principal of reason and freedom, which are obviously different. But the Western culture was rooted into an authoritarian and totalitarian culture. The Christian vision of the world was obviously rejecting logic. So, the Western culture has always mixed totalitarian vision of society with their beliefs in logic.

Oeconomicus: Thank you.

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Reply from Professor Frederic Lee

Parguez is incorrect to argue that there cannot be any microeconomics other than neoclassical. He defines microeconomics as neoclassical microeconomics, but microeconomic economics can be defined in other ways. In particular it can be defined along Post Keynesian lines. That is, Post Keynesian microeconomics is concerned with developing a critical understanding of the 'micro features' of the economy concerned with the process of social provisioning. Hence the purpose of Post Keynesian microeconomics is to identify, describe, and develop a narrative historical analytical explanation of the structures and causal mechanisms which determine the processes of social provisioning. The constituents parts of Post Keynesian microeconomics include the business enterprise, production and costs, pricing and investment, markets and market governance including cartels and price leadership, structure of market demand--consumer, industrial and government, government regulation of market activity, financial institutions, distribution of income, workplace control and social welfare, and more. It is possible to develop a Post Keynesian price-output model of the economy that is quite different from the neoclassical general equilibrium model. Post Keynesian microeconomics provides the foundations for Post Keynesian macroeconomics, but the latter cannot be reduced to the former. Post Keynesian macroeconomics deals with issues/problems that have economy-wide implications, whereas Post Keynesian microeconomics essentially looks at issues that are enterprise, worker, and market specific. So, there is a Post Keynesian microeconomics after all, Professor Parguez.

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Conversation with Jan A. Kregel[*]

By Fadhel Kaboub

J.A. Kregel is Professor in the Department of Economics of the Università degli Studi di Bologna and Adjunct Professor of International Economics in the Johns Hopkins University Paul Nitze School of Advanced International Studies where he has also served as Associate Director of its Bologna Center from 1987-90. He received his PhD from Rutgers University in 1970 under the supervision of Paul Davidson. Professor Kregel was also trained by Joan Robinson and Nicolas Kaldor at Cambridge University in the U.K. He has held permanent and visiting positions in universities in the United Kingdom, the United States, the Netherlands, Belgium, France, Germany and Mexico. He is a Life Fellow of the Royal Economic Society (U.K.), an Elected member of the Società Italiana degli Economisti, and a member of the American Economic Association.

Professor Kregel is currently serving as High Level Expert in International Finance and Macroeconomics in the New York Liaison Office of the United Nations Conference on Trade and Development (UNCTAD). He is also a permanent advisor for the Trade and Development Report of UNCTAD, and is a member of the Scientific Advisory Boards of The Italian International Economic Center, Rome, and the Istituto per la Ricerca Sociale, Milan.

Among his major published works are a series of books in the field of Post Keynesian economic theory, as well as over one hundred and thirty articles published as chapters of edited books and in scholarly journals including the Economic Journal, American Economic Review, Journal of Economic Literature, Journal of Post Keynesian Economics, Economie Appliquée, and Giornale degli Economisti among others. His works have been published or translated in Italian, French, German, Dutch, Spanish, Basque, Portuguese, Greek, Japanese, Russian, Turkish, Finnish, Hungarian, Serbo-Croat, Hindi and Ukrainian.

In the 1970-75 period, Professor Kregel was concerned with synthesis, integration and delineation of a Post Keynesian methodology and paradigm. From the mid 1970s until the late 1980s, he worked on the analysis of decision making under uncertainty, on formation of asset prices and on Keynes analysis of Chapter 17 of the *General Theory.* In 1988, Professor Kregel showed that Keynes' liquidity preference and own rate analysis were actually two sides of the theory of effective demand (1988a). His most recent works on price formation and market structure provide a powerful critique of neoclassical price theory and propose a Keynesian alternative in which expectations of the future go into the determination of current price determination and in which institutional arrangements undergird the process of price formation.[**]

A selection of Professor Kregel's publications is listed at the end of the interview. The reader will notice that this interview was a brief one and that some questions were

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[*] Questions in this interview are inspired by interviews in: Snowdon, B., Vane, H. and Wynarczyk, P., *A Modern Guide to Macroeconomics: An Introduction to Competing Schools of Thought*. Northampton MA: Edward Elgar Publishing, 1994.

[**] See the entry on Kregel, Jan A. by L. Randall Wray in *An Encyclopedia of Keynesian Economics*, edited by Thomas Cate in 1997.

also asked to Professor Alain Parguez in the first interview. This could be a source of comparison between the two economists' opinions.

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Oeconomicus: Skidelsky in his biography of Keynes (Volume II) has argued that "Keynes' inspiration was radical but his purpose conservative." How did Keynes reconcile these two opposing forces?

Kregel: Keynes was conservative in the period in which he was writing. If you look at communism, on one hand, and fascism on the other, he was conservative in choosing neither one. So, basically what his theory tried to do was to find a way out between what seemed to be the two alternatives in the period in which he was writing. If you look at his relationship with Hayek, he had a sort of love-hate relationship with Hayek, basically because he thought that Hayek's policies, which were reactions to communism, would lead into fascism. So, basically he was trying to find some other way to resolve the social problem, which, in Eastern Europe, had led to these two alternative solutions, and it was quite common in Cambridge at that time for many people to be what we call Germanophiles arguing that Hitler's policies were in fact very efficient in solving the problems of unemployment and keeping output levels extremely high. So, what Keynes was looking for was an alternative between that position and the extreme communist and socialist position in which the state completely took over the economy.

Oeconomicus: The neoclassical synthesis interpretation of the *General Theory* made Keynes part of the "broader" neoclassical theory. How has it affected economic theory and policy since then from its "Keynesian route?"

Kregel: Basically, the neoclassical synthesis wanted to say that macroeconomics really deals with some sort of statistical regularities in aggregate variables, but the basic classical microeconomics theory (which is in fact neoclassical microeconomic theory) is necessary as an underpinning. So, the synthesis was to put together the neoclassical micro with these sorts of macro regularities, and what it did was to completely eliminate Keynes' own approach to price theory problems. As a result, the so-called micro foundations of macroeconomics ended up by completely eliminating all of the macro regularities. So, basically what it did was to completely destroy any reminiscence of Keynes' theory whatsoever.

***Oeconomicus*:** Joan Robinson argued that Keynes "was himself partly to blame for the perversion of his ideas" and that he "himself began the reconstruction of the orthodox scheme that he had shattered." What do you think are the main reasons for the conflicting interpretations of the *General Theory*?

Kregel: Well, Joan was part of the group that have very strong Marshallian roots and were strongly influenced by Sraffa's criticism of Marshall, so that when Keynes was working on his book, on the one hand, they argued very strongly that it should be placed in a Marshallian context (i.e. a particular Marshallian supply and demand terms). But at the same time, they thought that it should also be using the criticism that Sraffa had made. Joan Robinson also felt that it would have been useful to introduce some of the imperfect competition aspects. Now she herself eventually came to think much less of the imperfect competition revolution [than] when she first put it forward. In fact, she repudiated her book on imperfect competition. But at the same time she thought that Keynes remained within the orthodox scheme by failing to adapt and to accept the Sraffian criticisms and for that reason she thought he left a certain amount of orthodoxy within his theory. On the other hand, we also have to recognize that Joan Robinson did not ever understand why chapter 17 existed in the book, and on several occasions she suggested that it was better off not being there. So, there are some questions about whether she really understood the basic structure of what was going on.

Oeconomicus: What is the Post Keynesian critique to the *General Theory*?

Kregel: Well, there are a couple of things that you might do. First of all, the *Treatise on Money* did have a rather extensive analysis of international exchange and international monetary conditions. And most of this was left out of the *General Theory*, not because it couldn't be put in, but simply because I think that Keynes thought that the propositions were sufficiently general that they could be extended. So, in fact, what you ended up with was a Keynesian theory of international trade, which was more or less based on the multiplier, and as we have already seen, the multiplier should not be considered as the basic contribution of the *General Theory*, so that you ended up, in that sense, with a theory of international trade which remained extremely traditional.

Oeconomicus: What about the money supply?

Kregel: If you look at what Keynes was trying to do it was quite clear that there are number of assumptions that he has to make in order to make a very sharp distinction between his own theory and the existing theory. Two of these were the initial assumptions that you were working in terms of wage-unit, and those wage rates were considered to be fixed. The other one was that money supply was fixed. The indications in the book [show] that it was not his belief of how the system works, and, in fact, if you go back to the *Treatise on Money*, you can find a very nice explanation of the money supply curve. So, these are things that he might have spent more time reintegrating back into the theory, which would have saved subsequent debates.

Oeconomicus: What have been the main influences on your own work?

Kregel: I think that the basic influence was that when I was a student at Rutgers, Paul Davidson gave an advanced seminar on the Cambridge Capital Theory Controversies, so that I was introduced relatively early to those controversies. And at the same time, these were linked to the *Tract on Monetary Reform*, the *Treatise on Money* and the *General Theory*. So, they were, in a sense, treated as a whole. So, by the time I got to Cambridge, I knew more or less what was going on there, and I did not have to relearn the stuff that they were "playing" with. After that, I think basically I was fortunate to have some basic first-hand exposure to financial markets, and became interested in types of the *Treatise* *on Money*, the *General Theory* and then eventually *Tract on Monetary Reform*, which were very closely linked to these theories. So, I ended up moving more into finance as a result of having studied Keynes, rather than having first studied Finance and going into the backwards. So, this was probably a rather fortunate but random occurrence.

Oeconomicus: How do you explain the evolution in your writings from a theoretical work to a more applied or practical work? Does it have any relation with the influence of Paul Davidson first, and Joan Robinson and Nicolas Kaldor, later?

Kregel: No, I do not think so. There is really no reason to have a theory unless you are going to use it to explain something, and that is what policy is all about. Policy is a way to fix something, and if you are going to fix it, you have to know why it is going wrong, and that is what the theory does for you. Then, it tells you what the policy prescriptions should be. So, eventually if you are going to do one, more or less, you are going to end up doing the other one. If you look at Keynes himself, there was no separation between theory and policy at all. In fact, he probably started out being more involved in policy and ended up formulating a theory, which allowed him to pursue the policy rather than anything else. Theory for its own sake, I think, he would never have done.

Oeconomicus: What are, in your opinion, the fundamental propositions of the Post Keynesian economics?

Kregel: The fundamental proposition is that you do not take full employment as given. Richard Kahn always refers to this point; he said [that] whenever you analyze anything you have to remember not to assume full employment, and this is what basically everybody does. Once you have this as an open question, then you have to explain it. And I do not know if you can call them fundamental propositions. It is more a question of how you think decisions are made in the economy, and who makes them. So, in a sense, a fundamental principle is, in fact, that you look at producers, consumers and government as fundamental decision-makers, then you attempt to analyze the way those decisions are made. This, sort of, gives you the framework in which to proceed. If you look at the traditional classical theory and neoclassical theory, effectively, the market is the one which decides everything. If you look at the freedom, which is given to individual consumers and producers, it is very little. They are, sort of, "condemned" to maximize, and it is the market that then produces the results.

Oeconomicus: What are the policy implications of the Post Keynesian economics?

Kregel: That depends on what problem you are trying to solve.

Oeconomicus: Unemployment, for instance.

Kregel: The policy implications are, first of all, that it is not natural, and that you can do something about it. The traditional theory says that if you have unemployment, it is a natural result of the system attempting to adjust to changes in structure or something else.

So, it is really something that you cannot do anything about. So, you have to take steps in order to eliminate it.

Oeconomicus: What are the major differences between U.S. and British Post Keynesians?

Kregel: That is a difficult question to answer, because British Post Keynesians you have to divide into two groups, the people who actually worked with Keynes, and the ones who came afterwards. The people who worked with Keynes constituted a very peculiar group. They have been through a whole range of theories, and, in fact, developed them very much along with Keynes. The people who have come afterwards, I think, have a slightly different approach. So, whereas most of the early Keynesians would be linked more primarily to things like the *General Theory*, or the Capital Theory Controversies and things like that. The subjects in British Post Keynesians have been interested in market structure, imperfect competition, corporate governance and things of that sort. In a sense, I think, the early ones were more macro-oriented, and the subjects who were trying to develop microstructure based on work, which is really very similar to [that of] Alfred Eichner and, in particular, Malcolm Sawyer and some others. And at the same time you have some others such as Vicky Chick, Sheila Dow, who are more, I would classify, probably in the American Keynesian tradition, which places a greater emphasis on money, uncertainty and things like that. In fact, currently, I think, it is a very difficult distinction to make.

Oeconomicus: With which one of these groups would you place yourself?

Kregel: Oh, I try not to [laughter].

Oeconomicus: Do you think it is possible to marry together the contributions of Keynes and Sraffa? Why or why not?

Kregel: Yes, I do think so. First, when we talked about the investment decisions, most of the things that came out of the Capital Theory Controversies are relatively straightforward propositions in finance theory, and it is amazing that economists took so long to discover them. This was simply because they were looking at such simplified models of the investment process. So, rate of return reversals, in which a common criticisms of choice of investment within finance theory, major neoclassical theorists continued to defend, despite the fact that they should have known that. So, the aspects of the Capital Theory Controversies, I think, are already implicitly in the *General Theory*. The [second reason has to do with] Sraffa's theory of prices, and I do not think that there is great difficulty in feeding into the structure of the spot and future prices, a structure of spot prices, which is one that is very similar to that of Sraffa. So, from that point of view, it should not be extremely difficult.

Oeconomicus: How does the Post Keynesian theory of finance stem from Keynes' method of analyzing expectations? And how is it related to the modern financial system?

Kregel: The difference is quite clearly that the modern theory of finance relies almost exclusively on statistical theory. There is now an increasing branch of the so-called psychological finance theories that have been built up, which are probably a bit closer to what Keynes had in mind in terms of expectations. But the basic similarities are that it relies on the basic theory of the operation of financial markets, which is exactly the same as the one that you find in the theory of finance. The only difference is, when you look at the theory of finance, you will find something like the theory of efficient markets, which have a very different interpretation than Keynes would give, but the formal structure remains exactly the same. Regarding modern financial system, Keynes took as given a financial system that is really very similar to the one that we have today, because he was writing in a period [where] most of these derivatives markets did not exist because [of the destruction of] the free capital movements that have existed before World War One. So, you have a period in which capital markets were relatively small and exchange rates were fixed. So, none of these markets existed. It is only since then that we, in a sense, recovered a lot of these aspects, which were quite common in Keynes' days. So, it still does look very similar to what he was working.

Oeconomicus: Thank you.

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America's Growing Inequality of Income and Wealth

By Robert Scott

Introduction

The United States has witnessed increasing growth over the last five years. Some of the influences in this growth have been the following: strong foreign trade, rising stock prices, and increased consumer spending. These influences have brought about some positive factors such as low unemployment with low inflation. However, underlying these positive elements is a growing inequality of wealth and income. The last time the U.S. economy faced this great of an inequality was during the 1920s previous to the stock market crash in October 1929. In dealing with the facts and possible solutions to this economic instability, the use of Thorstein Veblen's dichotomous approach in understanding how technology and institutions work will help in exploring the factors that have led to this inequality. There have been several recent events that have brought about this inequality, but few are as obvious as those presented below.

Historical Influences

Ronald Reagan played a significant role in the developments regarding inequality during the 1980s. What brought this about? The question can best be illustrated with the use of "Pie Theory." Pie theory was based upon assumptions created by the U.S. government politicians to bypass the lower classes by cutting taxes for the upper 20 percent so there would be more money available to all classes and the "Pie" which is our economy would grow and everyone would receive a larger piece [Wolff 1995].

> All classes alike thus build their plans, the rich to spend more and save less, the poor to spend more and work less [Keynes 1920, 4].

It is the rich who had the wealth and could not be so altruistic as to give a portion of their pie slices to those far worse off. The theory is fine, and the idea behind it is not difficult to accept; however, the implementation left little to desire for pie theory economics. The devil was certainly in the details [Wolff 1995, 58].

Inequality surfaced from the period beginning in 1983 and ending in 1989. Real income decreased for the bottom 80 percent of U.S. citizens by 3.6 percent, and had increased for the top 20 percent by 0.6 percent, and the top one percent received a three percent increase in income. Wealth growth was certainly concentrated within the top one percent class, however, the remaining 19 percent actually felt a decrease in their overall wealth, and the bottom 80 percent witnessed their wealth decrease as well [Wolff 1995, 1995].

Present Conditions

To understand inequality between wealth and income one must formulate the distinction between the two: "income is a flow of dollars over a period of time usually one year," "wealth is the net dollar value of the stock of assets less liabilities held by a household at one point in time." Income plays a large role in a person's standard of living and the goods she is able to purchase. With a higher income it is adequate to assume people will accumulate wealth, depending on how much of their income is spent and how much is invested and or saved. Over a long period of time with market increases in income, a household may certainly have the opportunity to obtain a level of wealth, privy to their spending and saving habits. Wealth is a more intricate element; it can be dormant without substantial percolation or disturbance by the U.S. government, if the individual possessing control so wishes. Therefore, wealth is harder for the government to keep track of [Galbraith 1998].

Real income in the U.S. has been increasing for the past several years in the upper and lower classes, but it has yet to stabilize or reverse the inequality due to the fact that the upper 20 percent are left to gain more profit through wealth acquisition. Capital gains, the appreciation in value of existing assets, have been increasing dramatically during this market growth period:

> At the very top of the income distribution, net capital gains are extremely important. In 1988, they accounted for 22.1 percent of the income of the top 1 percent of taxpaying families, and that group received over 68 percent of all gains. Capital gains overall totaled $153 billion [Galbraith 1998, 14].

Capital gains are a very efficient income provider. You must have the means to purchase assets, and they in turn may create positive revenue. Wealth can have a different effect than income. Wealth is a very influential mechanism in providing growth opportunities in the economy, because wealth can be used to create more production, jobs and bring about lower unemployment because its typically invested. This is not to say that wealth has a greater impact per se than income but its influence plays a large part in inequality among classes in the U.S. The concentration of wealth expands the overall inequality further than could be achieved by income alone [Galbraith 1998]. Income inequality has brought about many changes in our American society. People have to work more to maintain their current standard of living. Pie theory has been ineffectual for the bottom 80 percent of Americans, because they have yet to receive substantial benefits that should have come to them.

Two public social structures have helped further percolate the inequality problem: the U.S. government and the public education system. The U.S. government has played its role in creating this inequality, starting with Reagan, and continuing with Clinton. The government has the influence and tools to correct inequality in the U.S. and begin to substantiate the American people's work efforts by slimming the inequality rather than being dictated to by only America's wealthy citizens. One Federal policy that has created imbalance of incomes is the U.S. tax structure. In the U.S. today we have a progressive tax structure. As your income increases so does your income tax rate. The problem today is that the U.S. is giving tax breaks to the wealthy and very little (if any) tax relief to low and middle wage earners. The extra money the wealthy get from the tax cut will most likely go toward increasing their wealth, therefore, this will create more inequality. The public education system is a key element in reversing the inequality in the Unites States. The more education a person gets more often than not the higher their income. Education also makes people more aware of social and political issues. Educated people are more inclined to vote, and demand less help from government programs.

Myths and Legends

Money won't make you happy
Give money to the church and your soul shall be saved

The first statement is not as much a myth as a misconception. Money certainly in and of itself will most likely not make one content or happy. Without money a person cannot have food, shelter, or clothing. In a monetary economy these needs can only be fulfilled by exchange of currency. The currency may not come from the person receiving the goods; it may come from an organization or government program. The only reason the U.S. has inequality is because it functions as a monetary economy. If money did not exist, inequality would disappear.

The second statement is one designed to instigate fear. Religion is usually a large part of what makes a civilization, and we are all afraid of what we do not know. As an example, in the Catholic Church, you are encouraged to tithe with the church, giving 10 percent of your household income to the church. Validation is then achieved. With the rampant income inequality factor, I am shocked that the Catholic Church has yet to fight for their significant slice of the pie. Maybe God is a republican?

Technology is an important part of Veblen's dichotomy. The modern corporation is full of employees, technology, greed and corruption. The modern corporation plays its part in the growing inequality of wealth and income like Vivaldi orchestrated violins. Can the modern corporations today confront the inequality that is adversely affecting the majority of the U.S. population? Technological advancements have created gaps between individuals with specialized education and knowledge, and those who do not have such skills. Politicians now have excuses for inequality, warranted by technological advancements, and they thus disregard the individuals who are unable to specialize their knowledge, and diversify their abilities [Barnet & Cavanagh 1994].

"Faster, better, cheaper," is the ideology in the U.S. with regards to production. This logic promotes the idea that we can use computers and technology to turn our civilization from "waste not, want not," to a society in which we waste everything. Inequality of wealth and income here are seen as deterrents to creating better, faster, and cheaper modes of production. If inequality exists because the rich are boosting the economy and profiting from this, then they truly are responsible for the current inequality epidemic. Production will then falter and the blame will probably be placed on the humanitarians of the world [Theobald 1967].

In the U.S. computers equate into dollars. The invention of the computer and the research involved with computers has brought about many changes in the U.S. economy. Money is now made readily available to those who have the wealth to invest; suddenly they are accumulating more wealth because of the computer industry through the over valued stock market, which will correct itself soon enough. Computers allow them to accomplish more work far faster then before and with less effort. Computers have also changed how we think of money. Money today is represented in binary code; it is just a bunch of numbers on a computer monitor. This distinction changes the way money is transferred and allocated. The computer works as just another tool segregating the poor from the rich, because if you do not have access to one, then you are using out dated tool and the rich have the advantage.

The Lorenz Curve and Gini Coefficient

The Gini Coefficient is the area between the diagonal and the curve divided by the triangle below the diagonal. If the coefficient equals zero, then there is an even distribution of income. Figure A shows the inequality of the U.S. in terms of income with current data. Figure B, is broken down into the black line representing 1970, green 1980, blue 1990, and red 1994. When looking at these Lorenz curves, it is obvious that the previous statements of growing inequality are valid [Gardner 1998].

Figure A

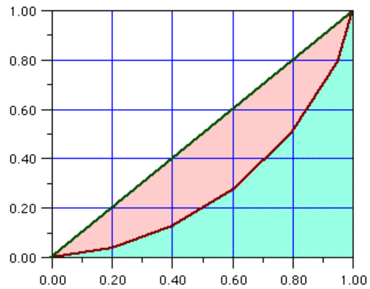
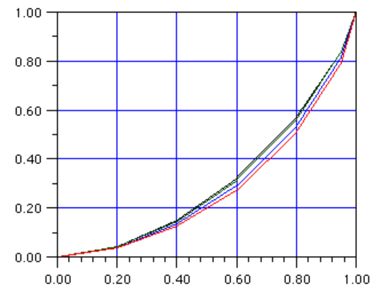


Figure B



Global Inequality Concerns

When studying the world's problems with respect to inequality, it is obvious that most countries are not suffering from extreme bottlenecks or large inequalities of wealth and income. Their Lorenz Curves are slightly closer to the mean than our own. That is in part because certain foreign governments have created government tax policies to deal with excessive wealth. Most wealth tax policy work as an annual payment on wealth to the government; but the percentages change depending on the country. It makes sense that in the event wealth is taxed that there would be less inequality because the decrease in overall wealth for the rich is lowered by a significant amount, but this depends on the country's rules [Wolff 1995].

Solutions

As discussed above, a viable solution to the inequality of wealth and income in the U.S. could be to initiate a wealth tax policy. Most wealthy governments that have implemented such policies get very little revenue from them when placed against total revenue. However, it seems to have a positive effect on income and wealth inequality. A wealth tax may very well bring greater balance to the pressing problem of inequality [Wolff 1995]. I do believe that these influxes have been seen before, not in such a large magnitude, but the variables involved are certainly no different than the past, which led to high income and wealth inequality. The problem may be solved simply through egalitarianism.

Conclusion

Inequality of wealth and income is a serious problem in the United States. Politicians for a myriad of reasons are not facing the inequality issue. We have seen through analysis of historical influences that theories created by the rich for the rich usually have a negative impact on a majority of U.S. citizens. Our economy may not be a living organism, however, government and education can allow it to help people who may never have been able to achieve a high standard of living on their own achieve it and sustain that livelihood for their family in the future. Computers are fueling this new economic age, and with their presence possible solutions to more current and future economic situations may arise. There must be a division of labor, and a real wage increase in order to substantiate the market growth for the bottom 80 percent, or the bottom 80 percent may very well have more serious problems ahead.

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The Effect of the Euro on the U.S. Dollar

By Dale Krueger

As with the introduction of any new system, there are bound to be some unexpected results. The introduction of the Euro will most likely be characterized by periods of instability in the exchange rate as the new European Central Bank (ECB) tries to find an equilibrium level for the Euro, which will be beneficial for the combined European economies and result in price stability. How can this have an effect on the U.S. Dollar? Well, the U.S. dollar can be effected in the short run by fluctuations in exchange rates, which in turn effects, the balance of payments between countries and the flow of goods and services. "The ECB has stated that it intends to let the Euro exchange rate float in the international marketplace and its only interest is price stability within the EMU" [Duisenberg 1999b]. Given all other factors were to remain constant though the Euro would still have an effect on the exchange rate between the Euro and the U. S. Dollar depending on the type of monetary policy the European Central Bank chooses. The choices open to the ECB in the short run are one to follow a stable monetary policy, second a tight monetary policy, or third an expansionary monetary policy in order to bring about price stability in the European economies.

A second way that the new Euro can affect the dollar is through the tightening of the money supply. By restricting the money supply the basic demand for the Euro will be higher then the U.S. Dollar. This will result in greater investment opportunities with higher interest rates making investors willing to invest more money into in the European economy. But in turn will eventually lead to the interest rates fueling the transition of companies to find more efficient production levels. Unfortunately, if the EMU central bank restricts the money supply the reaction would be negative to the Europeans involved with the Euro, as their economies of scale would force the loss of jobs because of the removal of the currency barriers and the tight money supply. This scenario would have the effect of stopping inflationary pressures but probably at too high of a cost. In any case while all this is going on the value of the Euro would increase relative given the lack of Euro's in the marketplace make U.S. goods and services cheaper to import than their European counterparts. This scenario seems implausible, as I do not believe the European Central Bank would want to restrict the businesses of the EMU from expanding, while at the same time stimulate the purchase of foreign goods and services. So, overall the Euro's value while high compared to the U.S. Dollar would have a positive effect in the short run on the U.S. economy until the European Monetary Union members are able to become more efficient in competing with its U.S. counterparts. This choice would benefit the consumers in the EMU but would go against the ECB's mandate to foster price stability in the short run that will help businesses within the EMU to grow.

The third choice open to the European Central Bank is to have an expansionary monetary policy where they let the money supply increase and keep interest rates low. This will allow the economies of the different European countries in the EMU to foster economic growth. This also will allow the EMU countries to converge into one large economy easier. This is because all of the countries within the EMU are at different economic levels and fighting to establish a new equilibrium level throughout. By taking an expansionary monetary policy the European Central Bank will help to maintain and create more jobs and focus the business competition toward increasing efficiency alone as a result of the loss of the currency barriers. Because of this companies within the EMU will be capable of adjusting easier as a tight money supply and/or higher interest rates do not hamper them. If the monetary policy of the European Central Bank is to work toward price stability and an equilibrium level between the different EMU countries as the goal then eliminating as many impediments that can effect growth in the EMU is necessary. An expansionary policy would be of benefit, as all of the attention would remain on efficiency as a result of the reduction in the currency barrier and not having to focus on the money supply. A bonus if one wish to call it that is that this scenario has the Euro relative to other currencies such as the U.S. Dollar dropping in value as a result of too many Euro's trying to chase to few goods. This will then result in the exchange rate of the Euro falling with respect to the U.S. Dollar and thereby making European Monetary Union member country's products cheaper to purchase than products from the United States. The negative aspect to this scenario is that it means that inflationary pressure will force price changes in the 11 EMU countries, which is against the basic tenant of ECB of price stability in the short run.

So, the question now is, what is the best policy that the European Central Bank should follow in order to support the EMU countries? One of the problems with choosing the proper course of action is that there is no scientific evidence available on how to proceed with the EMU. Nothing like this has been attempted before so no information exists on how the economies of the EMU will be affected by the policy the European Central Bank takes to bring about stability. Some countries will be positively affected and some negatively until equilibrium level is found, so it's essentially trial and error. But given that, the most likely scenario that seems to benefit the EMU entails a combination of expansion of the money supply while trying to keep some stability in the currency exchange rate, in other words, a controlled descent. The least likely scenario seems to be a tightening of the money supply, as this would only result in a credit crunch in the EMU and slow down the economy at a time when it need to be foster greater productivity. Essentially though short run changes in monetary policy will have effect the exchange rate with the U.S. Dollar but it all depend on how the ECB wishes to proceed.

What is the actual European Central Bank's strategy for the "Euro" and exchange rate fluctuation? The ECB's President Willem F. Duirsenberg best explained the ECB's strategy when he stated his views at the Frankfurt European Banking Congress in November of 1998.

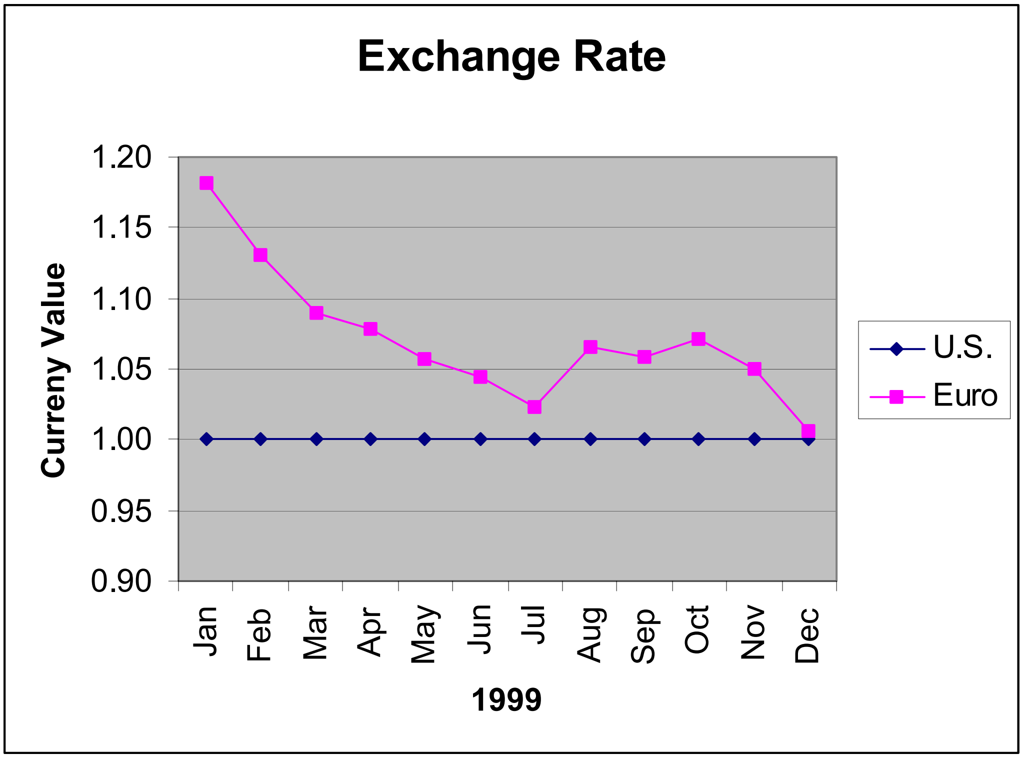
> Some observers have asserted that one of the main motives behind Economic and Monetary Union in Europe is the creation of a major international role for the Euro, and that fostering such a role would be an important objective for the European Central Bank. Both assertions are incorrect. The purpose of the introduction of the Euro is to promote economic integration and economic welfare in the member states, and the objective of the European System of Central Banks (ESCB) – and of the ECB as part of this system – is to maintain price stability within the Euro area. The ESCB will take a neutral stance towards an international role of the Euro. It will neither hinder nor deliberately encourage the development of this role, but will rather leave this to market forces [Duirsenberg 1998a].

> The ESCB will however, contribute indirectly to the international recognition of the Euro by achieving its objective of maintaining price stability within the Euro area. A successful monetary policy is a necessary condition, but not the only prerequisite for the international recognition and use of a currency; the reason is that the latter is a complex phenomenon. While there is no single international role of a currency, there are many uses for a currency in an international context. On the official side, they include the use of a currency as an anchor for exchange rate pegs, as a means of storing foreign exchange reserves, and as a vehicle for foreign exchange interventions. On the private side, they include the use as a quotation and vehicle currency for international trade, as a currency of denomination for financial assets, and as a substitute currency in circulation abroad. The significance of all these roles depends on the decisions of a large number of economic agents – including governments, central banks, institutional and private investors, corporations, and traders – which the central bank can only influence to a limited extent [Duirsenberg 1998a].

By these statements one might take it to mean that the ECB is totally focused on price stability and so is going to follow a stable monetary policy. But price stability does not necessarily equate to a stable monetary policy so really we are left wondering what policy the ECB is really putting into practice. What we need is some hard evidence to truly determine the ECB monetary policy.

If we look at the exchange rate of the Euro shown in the graph below we can see that the President of the European Central Bank is holding true to his word in letting the Euro exchange rate float in the international marketplace. As you can see the Euro lost more than 18% of its value compared to the U.S. Dollar.

The Euro has steadily declined in value since the beginning of the year where it started at it high of 1.1812 to the dollar on its first day of trading. Since that time it has dropped to within a thousandth of the value of the U.S. Dollar at 1.0059. What does all this mean for determining the ECB's monetary policy? It means that most likely the ECB is expanding the money supply in an effort to stimulate growth in the EMU. This can be seen in the decline in the value of the Euro compared to the dollar, which seems to me to be too steep a decline for it to be accidental. Given the choices available to the ECB they made the proper choice for the EMU's monetary policy in order to foster price stability. But this also means that the ECB has allowed EMU goods and services to be sold cheaper in the United States. So, this means that U.S. is footing part of the bill for the new Euro through the lower exchange rate. Inefficient businesses within the EMU therefore are being helped by this monetary policy and U.S. businesses are being hurt. So, the net effect currently is that the Euro is having a negative effect of the U.S. economy in the short run. Since we now know that the ECB's monetary policy is having a negative effect on the United States economy in the short run, lets focus our attention on the middle run period and see the potential developments that could affect the U.S. Dollar and its economy.



Source: United States Board of Governors of the Federal Reserve Bank, "Historical Exchange Rate Data from 1990-1999." http://www.bog.frb.fed.us/releases/H10/hist/dat96_ge.txt

Is the effect of the Euro on the U.S. Dollar strictly limited to changes in the exchange rate? The answer is no. The reason for this is to be found in the further analysis of the EMU and the Euro's potential. We have to this point limited our discussion to the short run effects the Euro might have on the U.S. Dollar. Now we must focus our attention on the next possible stage of development of the EMU, which I call the middle run period. Here we have a whole new set of issues that present themselves that could affect the U.S. Dollar. Instead of the focal point for affecting the U.S. Dollar being the exchange rate mechanism we have the expansion of the EMU itself. There are three main areas, which I will discuss that I believe best illustrates the effect the Euro will have on the Dollar and the U.S. economy. First, is the effect of the addition of new members to the EMU, second, the pegging of a country's currency to the Euro, and third the increased transactions that will take place in Euro's between businesses. To proceed with the discussion we must first set the stage by explaining that it is assumed the Euro after five years will be moderately successful and the Euro will have stabilized to some extent in the international market. In addition, the dollar is still a major currency in the international market.

One of the effects in this middle period for the EMU on the U.S. Dollar rests in the addition of new member countries. Currently, the most likely targets for acceptance into the EMU are the United Kingdom and Denmark, which are the two countries that opted out in the first round of the EMU. How could this be a problem for the Euro? Well the answer to that is that the addition of any other countries to the EMU will once again destabilize the currency resulting in a new equilibrium level needing to be found. The addition of the United Kingdom and Denmark to the EMU are no exceptions to that rule despite the fact that they have strong economies. The destabilization of the Euro will result in speculators and normal businesses in shying away from the use of the Euro as a major currency, as it will appear to be to volatile in the international market place. In addition, if other countries such as Poland, the Czech Republic, or Hungary were to join with they're developing economies the Euro would be even more volatile. This being the case the U.S. Dollar would remain the international currency of choice. But if the EMU continued to grow and stabilize then one could see the Euro becoming a regional currency within Europe. Those countries that join the EMU would not have as much of a need for U.S. Dollars as most of their transactions would take place with there European neighbors. Here we will see the first signs that the Dollar is weakening relative to the Euro as unused dollars are left in the international marketplace and the value of the Dollar starts to decline. But even this will not greatly affect the dollar in the short term unless several European countries join all at once and dump Dollars in the market. The Federal Reserve would not consider the addition of new members as a potential problem at that time and would adjust by buying back the amount of money in circulation in the international markets. A regional currency is expected after all to have some effect on the dollar. Besides the addition of new members to the EMU having an effect on the U.S. Dollar we have to look at currency pegs.

A currency peg is the use of another currency usually the U.S. Dollar as the underlying currency backing the currency of that country, in order to increase stability and decrease exchange rate fluctuations to the currency being traded. The Hong Kong Dollar is an example of this type of peg as it is backed by the U.S. Dollar [Balladur 1999]. A currency peg is usually done because a country, which needs to trade in the international market place, also needs to have a strong and stable currency with which to trade in. In order to minimize exchange rate risk the currency of a country is pegged to the more stable currency such as the U.S. Dollar in order to make international trade easier. What does this have to do with the Euro and how will the Euro affect the U.S. Dollar if its currency is unstable? Think about the Euro as a snowball rolling down a hill. As the snowball rolls down the hill it picks up speed and gets bigger and bigger. This basically describes the EMU and the Euro, as the EMU goes through a second and a third round of additions. The European countries that are considering joining the EMU will begin to shift their assets toward the Euro. In order to accomplish this and eventually join the EMU these countries such as the former eastern block countries will begin to peg their currency to the Euro despite the fluctuations. It is possible that this could become a requirement for joining the EMU. As a result, the U.S. Dollar is further eroded by an ever-increasing number of countries using the Euro over the Dollar. Over time a cycle would develop as each successive round of expansions by the EMU would follow the same expansion mode with the Euro and the contraction mode with the Dollar.

The last effect that the Euro could have in the middle run on the U.S. Dollar is through the use of the transactions between the EMU and non-EMU European countries. Over time the regional nature of the Euro will increase the likelihood that transactions will be denominated in Euro's instead of dollars, which will only further Erode the dollar. Once again the dollar is used less and less by European countries by the this time and this of course forces the dollar to be devalued and destabilized thereby forcing the Federal Reserve to tighten the money supply in order to compensate for this action by the

European countries. Couple this with an exchange rate value of the Euro below that of the dollar in order to keep exports over imports in a trade surplus status with the United States. Since the Federal Reserve allows the dollar to fluctuate the end result would be a downward spiral of the dollar in the international market as each country in Europe dumped dollars in favor of the Euro. So, in the end the United States could be forced to tighten the money supply and raise interest rates to keep the dollar stable in the international market place, which in turn could decrease jobs in the United States and make the U.S. economy slip into a prolonged recession. Finally, this leads us into the long run outlook of the Euro.

In the long run some 16 or more years in the future the outlook on the Euro at this time is very rosy if the pattern discussed above holds true in the short and middle runs. The Euro by this time will probably have begun to establish itself on the world seen as an alternative to the dollar. But is the competition in currencies really good for the global economy? The answer of course is No. This is because the use of one currency is far more efficient for the global community then the use of 2, 3 or 10 currencies, which restrict the flow of goods and services and capital. Even now in the global market place we are dealing with an increasing push for economic efficiency, which continues to force businesses to find new ways to bring production costs down. A world dominated by more than one currency will never be as efficient as one global currency, which removes barriers to entry. But which currency is going to be the world currency.

Currently, the dollar by far has the advantage in this area. But if the pattern outlined actually takes place then the dominance of the dollar could be coming to an end. Why and how would this happen in the long run future of the global economy? There are two basic trends that could affect the outcome of which currency the Dollar or the Euro will end up being the world currency. First, is the dollarization effect that is occurring around the world? Second is the possibility of Euroization around the world.

Dollarization is the act of another country to bring about a stable monetary policy through the elimination of their currency in favor of the U. S. Dollar. This act basically gives the United States control of the monetary policy in that country. By this action the United States Dollar increasingly becomes more and more a global currency. One such country considering doing just that is Argentina, which has struggled to maintain a stable currency [Bergsten 1999b]. By changing to the U.S. Dollar, it establishes itself in the international marketplace since the Dollar is the currency of choice for international transactions. “Currently, 2/3’s of all U.S. Dollars are floating in the international marketplace” [Bergsten 1999b]. This makes the U.S. Dollar the most liquid currency in the world. But if another currency were to burst on the scene it could have a drastic effect on the Dollar.

How does Dollarization relate to the Euro’s effect on the Dollar? Well, it doesn’t, until you look at the potential of the U.S. Dollar to become a world currency and then compare it with the long-term potential of the Euro. In the future the U.S. Dollar should continue to increase in usage throughout the world, but only because there isn’t any other currency that currently can compete with the U.S. Dollar. If the Euro stabilizes and grows then in 15 or 20 years from now the Euro could very well be competing in the international market for the world’s currency. The additions of new member’s by this time will have subsided and the slow erosion of the U.S. Dollar will continue to nibble at the fringe of the value of the Dollar. Once this has started then the Euro will begin to pick up momentum and strength while the Dollar seems to falter. What this means is that the Euro will begin to crowd out the Dollar as an international currency. If the United States has not adjusted its monetary policy to compensate for the actions of the Euro in the international marketplace, then I believe that the Euro can and will begin to overtake the U.S. Dollar as the potential global currency for the future. As the Euro continues to crowd out the U.S. Dollar it leaves more and more dollars in the international market. When this takes place the value of the Dollar will begin to erode. Currently the Federal Reserve does not a change monetary policy in order to effect a change in the exchange rate value of the U.S. Dollar. Unfortunately, if this situation does occur then the Federal Reserve might be forced to try and prop up the U.S. Dollar by buying back the outstanding currency. The alternative is that the Federal Reserve will continue to let the U.S. Dollar float. But if this continues to be the Fed's strategy then the exchange rate will fall as governments and businesses alike move their Dollar denominated assets into Euro's.

By this point the downward pressure on the U.S. Dollar due to all the excess Dollars in the international market could become too great, and the Dollarization effect around the globe would start to decline in popularity. This in turn will bring to rise the idea of Euroization, which will begin to assert its dominance compared to the Dollar with countries adopting the Euro instead of the Dollar. How plausible is this scenario for the Euro and U.S. Dollar. Well if dollarization does not take hold in the marketplace in the next 15 years and the United States maintains 2/3 of its U.S. Dollars in the international marketplace then I believe it to be very possible. This is because governments and businesses will only be loyal to a currency as long as it continues to be a safe haven from exchange risk. If the Dollar were to start falling over a prolonged period of time, which could occur due to the time it would take to adjust the amount of Dollar's in the market. Over time as this pattern continues interest in joining the Euro, as the world's single currency will continue to develop. Two things that could have a dramatic effect on the decision by other countries to join the Euro will be one the decline of the dollar, and second the benefit to joining a currency which already has a track record of countries willing to give up monetary sovereignty. When this is compared with the Federal Reserves current policy which basically subjugates a country's monetary system to the whims of the United states then the we can see that the Euro would definitely be more attractive then the U.S. Dollar. So Euroization would overtake the Dollar as the world's leading currency.

Is the Federal Reserve aware of this possible effect of the Euro on the Dollar? The answer seems to be yes in a speech that Alan Greenspan the Chairman of the Federal Reserve gave in April of 1999 when he stated that "The introduction of the Euro is clearly going to significantly alter reserve holdings. As markets for Euro-denominated assets develop, the Euro should become increasingly attractive as a world reserve currency" [Greenspan 1999]. He goes on to state, "to some extent the increased attractiveness of the Euro should reduce the demand for the dollar. But history suggests that this effect is likely to be limited and evolutionary" [Greenspan 1999]. This statement gives me hope that the Federal Reserve Bank is vigilant in maintaining the U.S. Dollar from any kind of threat foreign or domestic. However, adjustments will most likely have to be made that could be harmful to the domestic economy but will be a necessary evil when the potential of the Euro is taken into account. If the Fed undertakes changes then the Euro will therefore not replace the Dollar but at most play an equal role in the international marketplace [Henning 1998].

In this paper, I have discussed the ways in which the Euro could have an effect on the U.S. Dollar and the U.S. economy in the short, middle and long run. We have discovered that in the short term that the EMU can affect the U.S. through its monetary policy, which in turn will affect its exchange rates. Through an analysis of the exchange rate between the Euro and the Dollar we have determined the most likely policy of the ECB to be an expansionary monetary policy. Then we went on to outline a middle run period in which the European Monetary Union is expanded and the Euro starts to erode the value of the Dollar. Finally, I have discussed a way in which the Euro through the decline of Dollarization and the advent of Euroization could overtake the Dollar. It needs to be understood that all of these effects of the Euro on the Dollar if left unchecked are cumulative and will only increase with the net result being a weaker U.S. Dollar in the long run. But if action is take by the U.S. Federal Reserve then these effects need not result in a major devaluation of the U.S. Dollar internationally. My desire for this paper has been that the discussion here has brought to light some concerns over the Euro that needed to be addressed in order for stability in the U.S. Dollar to be maintained in the international and domestic marketplace. I believe that inevitably there has to be a single world currency and that we need to look at both the advent of the Euro and the Dollarization for the ways this is going to occur. My hope is that the transition to a single world currency will be a peaceful and smooth one.

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Is the *'General Theory'* a '*Special Case'*? [1] Keynes' Theory vs. the Neoclassical-Keynesian Synthesis[*]

By Fadhel Kaboub

The General Theory of Employment, Interest and Money has been the subject of many interpretations. Some economists supported Keynes' revolution and praised his *General Theory,* while others reduced his theory to a special case of the more general '*classical*' theory that he attacked in 1936. Joan Robinson argued that Keynes "was himself partly to blame for the perversion of his ideas" [Robinson 1964, 90] and that he "himself began the reconstruction of the orthodox scheme that he had shattered" [Robinson 1971, ix]. Robinson is referring to Keynes' last chapter in the *General Theory*, where he argued that "if our central controls succeed in establishing an aggregate volume of output corresponding to full employment as nearly as practicable, the classical theory comes into its own again from this point onwards" [Keynes 1936, 378]. Clifford (1996) pointed out that the Keynesian economics' methodology is hardly restrictive: "With minor additions and adjustments, its typical equations can be used as the basis of a classical, a monetarist or a supply-side model" [Clifford 1996].

In this paper, I will provide a brief presentation of the Neoclassical Keynesian synthesis interpretation of the *General Theory*, and contrast it with Keynes' model. First, I will argue that wage flexibility is not a necessary condition to ensure full employment equilibrium. Second, I will use Minsky's two price systems to show how is investment (and therefore, employment) determined in Keynes' model. In short, I will show how different Keynes' theory is from the conventional wisdom view by arguing that involuntary unemployment is more likely to be the case in a capitalist economy and that there are no inherent forces in the system that could move the economy towards full employment.

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Many years after the introduction of John Hicks' famous IS-LM model, which was the first misinterpretation of Keynes' *General Theory*; Franco Modigliani[2] (1944) revised the standard model in his Ph.D. dissertation written under Jacob Marschak at the New School for Social Research. He proposed to add to Hicks' model the missing labor market and production function equations. As a matter of fact, Modigliani imposed the labor market clearing assumption as he defined the labor supply function as a function of the real wage. He showed that this assumption imposed on the IS-LM model results in a price elasticity of money supply equal to one. He concluded that money is *completely neutral*, as neither the interest rate nor the employment and output levels are affected by an increase in the money supply. In short, he established that the *'classical'* results can be derived from an ostensibly *'Keynesian like'* set of equations. One could argue that this result was obviously expected, as Modigliani assumed labor market clearing.

At this point, Modigliani proposed to run his model again without the market clearing assumption and with rigid money wages. His results showed that an increase in

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[*] I would like to express my gratitude to Professor L. Randall Wray (who should not be held responsible for my errors) for reading the drafts of this paper and making many valuable suggestions.

the price elasticity of the money supply is less than one. Furthermore, an increase in the money supply results in a decrease of the interest rate and an increase in both employment and output levels to the full employment level. Money is *not neutral*, and the Keynesian results are restored. Thus, Modigliani concludes that: “the liquidity preference theory is not necessary to explain underemployment equilibrium; it is sufficient only in a limiting case, the ‘Keynesian case.’ In the general case it is neither necessary nor sufficient; it can explain this phenomenon only with the additional assumption of rigid money wages” [Modigliani 1944, 75-6].

These conclusions presented by Modigliani were adopted during the 1950s and early 1960s by the conventional wisdom, which is essentially a ‘synthesis’ of Neoclassical and Keynesian theory, where the results of the model in a ‘perfectly working’ IS-LM model (i.e. in the long run) are Neoclassical (i.e. full employment). Whereas in an ‘imperfectly working’ IS-LM model (i.e. in the short run, money wages are rigid) the Keynesian conclusions are restored [Snowdon et al., 1994, 109].

* * *

It was Robert W. Clower (1956) and his student Axel Leijonhufvud (1967) who launched a significant attack against the standard presentation of Keynes and started the disequilibrium[3] Keynesianism movement. Leijonhufvud argued that the “… standard model appears to me a singularly inadequate vehicle for the interpretation of Keynes’s ideas” [Leijonhufvud 1967, 401]. Both Clower and Leijonhufvud believed that the disequilibrium situation (i.e. unemployment and effective demand failure) is the result of information and coordination deficiencies.

Clower and Leijonhufvud argued that one could understand Keynes’ theoretical contribution only in the context of the rejection of the Walrasian coordinating mechanism (i.e. the auctioneer). In fact, there is a basic difference between Walras’ world and Keynes’ world as Leijonhufvud explained in 1967:

> In Walrasian general equilibrium theory, all transactors are regarded as price takers… Walras’ auctioneer is assumed to inform all the traders of the prices at which all markets are going to clear. This always-trustworthy information is supplied at zero cost. Traders never have to wrestle with situations in which demands and supplies do not mesh; all can plan on facing perfectly elastic demand and supply schedules without fear of ever having their trading plans disappointed. All goods are perfectly ‘liquid,’ their full market values being at any time instantaneously realizable. Money can be added to such models only by artifice [Leijonhufvud 1967, 403].

However, in Keynes’ world (the real world), there is no auctioneer. Information and coordination are simply deficient in the market. This will lead to a positive feedback amplified by the multiplier effect (deviation-amplifying process) pushing the system farther away from the full employment equilibrium, as opposed to the negative feedback (counteracting-amplifying process) ensuring a return to the neoclassical general equilibrium [Snowdon et al. 1994, 114]. Snowdon, et al. argued that: “what the neoclassical synthesis did was to raise up the auctioneer fiction to its former glory and totally abort the purpose of Keynes' escape from the classics" [Snowdon et al. 1994, 115].

It is worth highlighting what Clower (1976) called the 'unitary decision hypothesis', by which the Neoclassical synthesis assumed that the decision to supply labor is automatically a decision to demand goods. Whereas, in the real world, the decision to sell is not automatically transformed into a decision to buy, since the expected consumer spending depends on his/her current income (dual decision hypothesis). Clower's dual decision hypothesis states that "the demand functions of the orthodox theory do not provide relevant market signals" [Clower 1965, 118]. That is, a decision to supply labor is not immediately perceived by the market as a decision to demand goods. "The only signals transmitted from one market to another are the effective messages backed by the wherewithal to pay… Notional demands do not convey any useful information or signals. Only effective demands and supplies count" [Snowdon et al. 1994, 114].

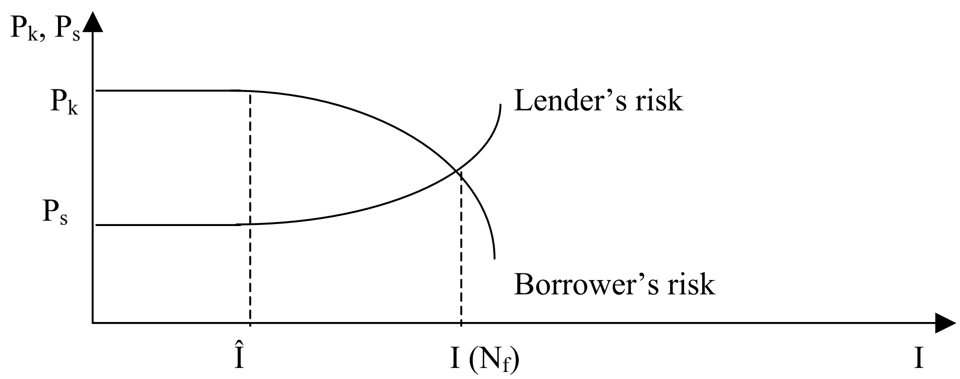
According to Clower, in Keynes' world, money is the only truly acceptable asset across all markets. Thus, he rejects the unitary decision hypothesis (the barter fiction) as he argued that: "money buys goods and goods buy money; but goods do not buy goods" [Clower 1969, 207-8].

Once the economy is in a disequilibrium situation due to the information and coordination deficiencies leading to an effective demand failure, there are two key factors pointed out by Snowdon et al. (1994) that prevent the economy from moving towards the equilibrium level of full employment. First, the unemployed workers' offer of their services to firms is not a signal of an effective demand for goods. Second, the change in time preference of individual economic agents, say an increase in saving, will result in a fall in the effective demand, leading to a decrease in both employment and output levels [Snowdon et al. 1994, 114].

The IS-LM model has also a fundamental weakness causing a tremendous misinterpretation of Keynes' *General Theory*. While both Keynes and the Keynesians have five goods in their system (consumer goods, capital goods, labor, money and bonds)[4] they only solve for three relative prices [Snowdon et al. 1994, 115]. The IS-LM model combines consumption goods with capital goods (commodities having a price *p)*. According to Leijonhufvud, Keynes combines bonds and capital goods into *non-money assets* the price of which is the interest rate (or the MEK, which is the return on all the non-money assets. It is determined by $q - c + l + a$. See discussion below). This is a major difference between Keynes and the Keynesians in the aggregative structure of their models.

In the Neoclassical approach, there is only one kind of output and one price for it. In Keynes, there are two kinds of output: consumption goods and investment goods. Along with the two kinds of output, come two completely different price systems: a price system for current output and a price system for assets (namely, according to Minsky, capital assets, the price of which is "critical to the determination of the amount of investment that will be undertaken" [Papadimitriou and Wray 1999]). The interplay between these two price systems determines the level of investment, and through the multiplier, determines the level of output and employment. Unemployment results when the two price systems fail to generate a set of prices consistent with the full employment level of production (i.e. either the demand price of capital assets is too low, or the supply price of capital assets is too high).

According to Minsky's interpretation, the demand price of capital assets P_k is determined in the price system of current output by the marginal efficiency of capital (MEK) and by the entrepreneur's or borrower's risk. Whereas, the supply price of capital assets P_s is determined by the current output price system and by the lender's risk (i.e. the bank's risk). Keynes' idea of borrower's and lender's risks was reintroduced in 1975 by Hyman Minsky who provided a more detailed analysis of this issue in what he called the two price systems.



Price of Capital Assets [Papadimitriou and Wray 1999]

Minsky's contribution can be summarized in the above graph where a firm can finance its investment up to Î (autonomous investment) by using its internal funds (P_k and P_s are horizontal). Beyond Î, the firm has to debt-finance its investment. P_s starts to slope up because of the lender's risk incorporated into it (i.e. lenders perceive greater risk associated with larger loans [Papadimitriou and Wray 1999]), and P_k starts to slope down because of the borrower's risk incorporated into it (i.e. borrowers perceive greater risk associated with higher payment commitments).

Minsky argued that the "borrower's risk is subjective; it never appears on signed contracts. It is a focal point of the 'quivers and quavers' of uncertainty and the 'surprise' of high animal spirits" whereas, the lender's risk is more objective, "it does appear on signed contracts" [Minsky 1975, 109-110]. During a recession, both borrowers and lenders have pessimistic expectations in terms of the expected yields of a specific investment (i.e. low MEK, high liquidity preference), P_k shifts down and P_s shifts up, and the non-horizontal parts of the P_k and the P_s curves becomes steeper, leading to a decrease of the level of investment and output. This results in a decrease in the level of employment, leading to more unemployment (through the deviation amplifying process), with no inherent forces in the system to drive the economy back to full employment. However, when the economy is booming, the expected yields of the investment are high (i.e. high MEK, low liquidity preference). Thus, P_k shifts up and P_s shifts down, and the non-horizontal parts of the P_k and the P_s curves become flatter, leading to an increase in the level of investment up to the full employment level of output (I (N_f)).

It is extremely important to point out Keynes' argument about unemployment not being the result of sticky wages. According to Keynes, unemployment is a liquidity problem, not a price (or wage) rigidity problem. The Great Depression was not caused by sticky-high wages; it was caused by a very high liquidity preference. In fact, Keynes argued in chapter 17 of the *General Theory* that every asset earns a return that is equal to its yield q minus its carrying cost c plus its liquidity-premium l plus its appreciation or depreciation a ($q - c + l + a$). For Keynes, at the equilibrium, the returns of all the existing assets are equal (i.e. all the "$q - c + l + a$" are equal). No new asset will be produced unless its return is higher than that of all the existing assets. Keynes said that he could not think of any commodity other than money that could be used as a standard of value. Money has three special characteristics that make it rule the roost: zero elasticity of production, zero elasticity of substitution, and zero or very low carrying cost; thus its entire return comes from its liquidity-premium l. Money is, in the estimation of the public, *par excellence* liquid [Keynes, 1936, 234].

Expectations have a major role in the determination of the level of investment. When expectations are high, liquidity preference goes down (l is low), leading to a decrease in the returns of all the liquid assets relative to all the illiquid assets, which represents a situation where more illiquid assets have higher returns than the own rate of return of money (i.e. the MEK's are higher than the interest rate). This will result in an increase in investment and employment (through the multiplier effect) up to the point where the MEK's fall below the interest rate. Having said that, it is clear that the level of unemployment is determined by liquidity (i.e. low MEK's) not by flexibility of wages. Furthermore, Keynes argued that sticky wages are required to make the system more stable; otherwise, the Great Depression could have been worse. The stickiness of wages in terms of money enhances the three special characteristics of money and encourages workers to sign contacts in money terms.

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It seems that the Neoclassical-Keynesian Synthesis has underestimated the concept of time, repeatedly highlighted by Keynes in the General Theory. They also ignored his arguments that "the expectation of the future should affect the present through the demand price for durable equipment" [Keynes 1936, 146] and that "a decision not to have dinner today… does not necessitate a decision to have dinner or to buy a pair of boots a week hence or a year hence or consume any specified thing at any specified date" [Keynes 1936, 210] (i.e. the dual decision hypothesis). Keynes focused on the effective demand as a driving force in the system. Firms do not perceive saving as a postponed consumption. They don't have any incentive to produce more goods (thus, increase investment and employment) unless they observe a rise in the effective demand of their products.

One could argue that even Clower and Leijonhufvud failed to interpret Keynes' *General Theory,* which was meant as an attempt to 'escape' from the 'classical' ideas rather than from the Walrasian general equilibrium theory. Keynes clearly defined the huge distance that separates him from the neoclassical school when he argued that:

> The classical theorists resemble Euclidian geometers in a non-Euclidian world who, discovering that in experience straight lines apparently parallel often meet[5], rebuke the lines for not keeping straight–as the only remedy for the unfortunate coallisions which are occurring. Yet, in truth, there is no remedy except to throw over the axiom of parallels[6] and to work out a non-Euclidian geometry. Something similar is required today in economics [Keynes 1936, 16].

Keynes criticized the neoclassical theorists for blaming the labor market for not clearing because of wage rigidities, instead of admitting that "involuntary unemployment in the strict sense is possible" [Keynes 1936, 17], and that flexible wages in money terms will not lead to full employment. "Keynes was not the economist of wage or price inflexibility, or disequilibrium, but of insufficient aggregate demand" [Harcourt and Riach 1997, xix]. His therapy focused on socializing investment, 'euthanasing' the rentiers and parting with liquidity. This is neither a fine-tuning policy, nor a depression (or a short run) policy. This is Keynes' long run policy to save capitalism.

Having in mind the above analysis, I would finally argue that in a capitalist economy, money matters. Due to uncertainty about the future, the level of investment and thus employment will mainly rely on our subjective (optimistic or pessimistic) expectations. The market is characterized by a failure in coordination and information dissemination. Therefore, the voluntary unemployment argument is not acceptable, especially in a system where there are no inherent forces that tend to move the economy towards full employment. Furthermore, the positive feedback mechanism will tend to move it away from equilibrium.

Notes

1. The title of this paper is borrowed from Leijonhufvud's conclusion of his 1967's article.
2. See *The History of Economic Thought Web Site*, "The Neoclassical-Keynesian Synthesis," 2000.
3. Clower and Leijonhufvud argued that Keynes had a disequilibrium approach instead of an equilibrium approach. When Keynes uses the term "equilibrium" he doesn't mean the same thing as the neoclassical approach, where equilibrium means that prices adjust so that all markets clear. When Keynes uses the term equilibrium, he means there are not any forces to cause further movements (markets might not clear). Thus, in Keynes' theory, unemployment is an equilibrium in the sense that there are no forces to cause employment to increase. Clower and Leijonhufvud thought that this is disequilibrium, because they use it in the way that neoclassical use it.
4. In Keynes' model, the consumption goods market and the non-money assets market are respectively associated with the price level p and the interest rate r. In the IS-LM model, the commodities market and the bonds market are respectively associated with p and r. In both models, the labor market and the money market are associated with the wage w and the unit 1 (since money is the standard of value in the system).
5. Keynes is referring to the labor market that does not clear in the real world.
6. Keynes is referring to the neoclassical assumption of full employment.

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Instrumental and Ceremonial Aspects of Consumer Behavior Among Women in the USA*

By Zdravka K. Todorova

Introduction

The present paper analyzes consumer behavior as an institution defined by instrumental and ceremonial factors. The purpose of the research is to propose an alternative framework of consumer analysis. It provides empirical grounds for questioning the dominant mainstream framework and provides a scheme of analysis that allows for consumer theory to look at consumer behavior as an indicator for inequality and class stratification in comparative systems. The research is narrowed to US society as an example of a capitalistic system and excludes from the historical analysis the specific characteristics of different ethnic identities in that society. This approach, to a certain extent, imposes a limitation for comprehensive analysis, since different cultures exist in interaction with one another. However, I believe that this *abstraction* does not represent a *simplification*, since the studied segment is analyzed in a historical dimension. The assumption of mainstream consumer theory -- that individual consumer behavior is independent of the consumer choices of others -- excludes habit formation as an element of consumer behavior at all.

The paper shows that consumer products have both instrumental and ceremonial aspects – they satisfy our basic life needs and our desire for social identity. If so, we should ask ourselves what does form our desires. The present research starts with the proposition that social behavior is habitual. Based on the philosophy of John Dewey and Thorstein Veblen, I accept that habits are rooted in the past and represent ideologically based ceremonial values. Since consumer behavior as an economic activity is also social behavior, we need to search for its basis in the past. Thus, analysis of consumer behavior requires a historical approach. In addition, to explore the ceremonial and instrumental values that set the rules for consumer behavior, we need qualitative data. Since we allow for historical analysis and qualitative data, we can go about specification of consumer behavior as gender-defined. Later we can extrapolate some implications for consumer theory as a whole and for economics as a study of social activities.

Why this paper probably will not be of interest for most of the contemporary economists?

1. It employs qualitative rather than quantitative data.
2. It does not employ the "economics" concepts of Utility Functions, Indifference Curves and Maximization. It explores ceremonial values and instrumental realities and makes judgments about the economic behavior.
3. It understands economic behavior not as rational behavior, conducted by informed agents, but as constrained by habit, social standards and instrumental reality.
4. It does not attempt to derive Demand Curves, Consumer Surplus, and Substitution Effects, and thus does imply the irrelevance of equilibrium.

* I am grateful to Professor James Sturgeon for his helpful comments.

5. It questions the dominant framework of economic analysis and implicitly questions the ideology that this framework sustains.

I. Theoretical Background

1.1. Ceremonial and Instrumental Characteristics of Social Behavior

If we recognize that for the most part, social behavior is habitual, as a result of the "habit of doing," it may appear that certain patterns of behavior are "natural," which may explain their rigidity. Habits therefore, being rooted in the past, may represent ideologically based ceremonial values. Myth and ritual are the practices, which bring ceremonial beliefs into action. As Hickerson states: "Ceremonial values are … habitual and conditioned by traditional practices; they reflect deferential concern with status, power, and custom" [Hickerson 1988, 185]. An example of myth conditioning with regard to the status of women may be seen in biblical form: "And the rib, which the Lord God had taken from man, made he a woman, and brought her unto the man. And Adam said, this [is] now bone of my bones, and flesh of my flesh: she shall be called Woman, because she was taken out of Man." Ceremonial beliefs like this provide standards for valuing certain behavior and prescribe particular status in society to particular segments of people. Therefore, ceremonial values help to set the rules for the economic behavior of individuals.

For example, the behavior of housewives as consumers is shaped by the stereotype that the cleanliness and appearance of a house are their responsibility. The roots for this attitude can be found in values imbedded in the institution of religion that influence the institution of marriage. This institution is based on the presumption that women should satisfy the needs of their husbands. Since one of these needs is a comfortable place to live, women should do their best to provide a good home environment and, at the same time care for their own good appearance and performance as mothers. We can trace the formation of this "natural" pattern of behavior back to the *Bible*: "The unmarried woman careth for the things of the Lord, that she may be holy both in body and in spirit; but she that is married careth for the things of the world, how she may please [her] husband."

Due to the "unconscious" habit of following traditions, ceremonial values are usually beyond inquiry for a relatively long time. "While ceremonial dominance determines the ceremonial feasibility of the range of permissible behavior, it is the knowledge fund that determines the instrumental feasibility of problem-solving activities" [Bush 1988, 141]. When new instrumental realities occur, new patterns of behavior capable of absorbing the advanced tools and skills are required. The standards of judgment by which tools and skills are employed in the problem-solving process require change. Thus, a change in technology requires a change in ceremonial values and patterns of behavior. That is how the industrial revolution changed the consumer behavior of women as workers. Another example is the change in courtship patterns with the increasing use of the automobile [Bush 1988, 250]. New tools are not only based upon the existing institutions, but also become a condition affecting the formation of future habits of thought, behavior patterns, or the form new institutions. This represents the continuum of institutional change and implies a dichotomy of ceremonial and instrumental, but not a dualism, since the interaction between the two ways of valuing cannot be clearly drawn.

With regard to the art of spending money, Wesley Mitchell draws attention to the family as the most important unit for consumption. He emphasizes the role of women in spending and notes the influence of tradition on their behavior [Mitchell 1950, 6]. Mitchell points out that, just as progress in the arts of production rests upon scientific knowledge, so does progress in the area of consumption [Mitchell 1950, 11]. However, according to Mitchell, "… as the family remains the most important unit for spending money, so long will the art of spending lag behind the art of making money" [Mitchell 1950, 6]. The fund of knowledge as a determinant of instrumental feasibility is a part of technology, which itself is an aspect of culture and a dynamic force for ceremonial changes. Culture, according to Ayres, is "…an organized corpus of behavior of which economic activity is but a part" [Ayres 1944, 96]. In order to analyze certain economic behavior - in the present case women's consumption patterns - it is necessary therefore, to look at the particular culture formed by ceremonial and instrumental values.

1.2. Institutionalists' View of Consumption

If we recognize that culture is formed with the historical experience of people it should be clear that consumption is a historical result, and looking at it merely as a function of prices and incomes moves us away from understanding its complex structure. The institutional theory of consumption is concerned with the formation of needs and desires. Price is only one of the factors in consumer behavior. Institutionalists factor into their analysis the ceremonial and instrumental forces responsible for formation and change of wants. A well-furnished kitchen is wanted not only because of its instrumental function (providing convenience and efficiency), but also because of the ceremonial function related to the symbolic meaning of the furniture (an expression of life style). Thorstein Veblen states that "the methods and the objects of expenditure" are shaped by desire for "pecuniary emulation," which exhibits status and gains "the esteem and envy of one's fellow men" [Veblen 1993, 21]. He traces back the habit of emulation to the origins of ownership and to the nature of habit. Acquisition of commodities complies with the habit of valuing what is reputable and honorable. Buying products similar to as those that rich consumers buy makes us feel respected and valuable. Displaying our consumption conspicuously reveals an interest not only in the instrumental value of the products, but also in their ceremonial value as a sign of status. Thus, consumer products have both instrumental and ceremonial aspects. They satisfy our basic life needs and our desire for social identity. What forms our wants? According to Dewey "… a wish gets definite form only in connection with an idea, and an idea gets shape and consistency only when it has a habit back to it" [Dewey 1988, 25]. Therefore, behavior should be analyzed as a social construct with cultural and dynamic characteristics. Consumer behavior is an element of the changing social process and is related to other institutions. As Sturgeon et al. point out, "Consumption is not, then, an end in and of itself to which all other economic activity points, but part of the life process of which economic activities are but a part" [Sturgeon et al. 1986, 164]. The present paper takes the above points into consideration and recognizes that purchasing represents an element of a historical process.

1.3. The "Barbarian Status of Women" as Basis for Women's Habits of Consumption

Property as an object of display can be related to the ownership of persons. In his article *"The Barbarian Status of Women,"* Thorstein Veblen looked at the capture of women by conquest as showing a propensity for dominance in the predatory barbarian group. The ownership of and the control of women show high status in the patriarchal system. Male control over women in barbarian society contributes to the molding of women's mores and habits, their tastes for commodities, and their attitude toward lifestyles. As Veblen states:

> The growing predilection for mastery and ownership, will affect the tastes of the men most immediately and most strongly; but since the men are the superior class, whose views determine the current views of the community, their common sense in the matter will shape the current canons of taste in its own image. The tastes of the women also, in point of morality and of propriety alike, will presently be affected in the same way [Veblen 1998, 507].

Possessing women became a prerequisite for the good standing of men in predatory society and, according to Veblen, led to the introduction of the ceremonial capture of women from the tribe by means of the institution of ownership-marriage. The status of women as trophy became the reason that masterless, unattached women consequently lost caste in society [Veblen 1998, 508]. In order to improve their own status, women felt they had to cultivate those physical qualities that would most attract men. The standards for female beauty have been changing throughout the ages, along with the accessories women use to achieve beauty. Thus, one can look at the dominance of masculine preferences as a factor shaping the consumer behavior of women. The status of women as trophy leads to women's pursuit of male's appreciation. In the reasoning of John Dewey about nature and conduct, this is to say that men praise women's quest for accessories, thus implementing it into the female character. In this way, men encourage women in future acts of cultivating attractiveness and thus providing pleasure to the opposite sex. The male approval of women's consumerism is a "technique of influencing the development of character and conduct." As Dewey further points out, "after a time and to some extent, a person teaches [her]self to think of the results of acting in this way or that before [she] acts. [She] recalls that if [she] acts this way or that some observer, real or imaginary, will attribute to [her] noble or mean disposition, virtuous or vicious motive" [Dewey 1983, 85].

It would be an oversimplification to consider the modifications of women's character and habits only as a result of their "barbarian status" in the predatory (and in the contemporary) society. Institutions do change. However, the primitive ownership relations have molded the instrumental and ceremonial environment of future societies and the roles for both sexes in them. Analyzing the status and the consumer culture of US women, this paper will attempt to point out some gender stereotypes in the context of the US history important as factors in forming women's consumer culture.

II. Social Status and Consumer Behavior among Women in the US

2.1. Gender Stereotypes and the Institution of Family as Factors Forming the Consumer Culture of Women in the US throughout History

Women's lives in Colonial America were partly shaped by the traditional conception of male-female relationships in Europe, and especially in Britain in the sixteenth and seventeenth centuries. However, it can be suggested that the people coming to North America were more flexible about changing their habits, through having left behind the remnants of the feudal institutions. Some of the colonists came with their wives and daughters; still there was a shortage of women. This created an urgent demand for their importation as potential wives. Some of these women were sentenced to deportation by European governments; others were victims of merchants who sold them for profit. Also, single women between eighteen and twenty-five years of age came voluntarily as servants for four to seven years in return for their passage, support, and a small amount of cash and clothing [Riley 1986, 12]. This indicates the low economic status of women in the colonial period. On the other hand, it can be suggested that their scarcity gave women the opportunity to choose among men of different status. This allowed women to determine to a certain extent their pattern of consumption, since colonial husbands were compelled by law to support their wives.

Keeping in mind the relative self-sufficiency of the household during the colonial period, women did not exercise much of their purchasing power. In fact, women were responsible for the production of most of the items that later, with technological advancements and the popularization of mass production, became objects of purchase. With the progress of technological advancement, women's consumer behavior changed. However, the adoption of home technology was slowed down during the 1860s and 1870s because the mystique of domesticity preached that only lazy or incompetent women would use the new machines to care for their families [Riley 1986, 132]. Maintaining an old-fashioned household was a socially established way of demonstrating morality. The availability of commercially processed fruits and vegetables by the 1880's did not discourage the practice of home canning in the increasingly urban society. Prejudices that the cans from the grocery stores were not fresh and that the food tasted "tinny," along with the relatively high costs, kept housewives skeptical about ready-made food. Unlike the commodity production related to their husbands' labor, the making of soap candles, clothes, food, etc., which was the domain of women's work, was not oriented toward the market, but directly fulfilled the needs of the family. The task of the wife in the household was to reduce the family expenditures. In the higher class where women could afford to exclude homemaker's work from their obligations, housewives were responsible for purchasing commodities, overseeing the servants or the household slaves, and playing a social, entertaining, and decorative role [Matthai 1982, 31].

The central focus of the white colonial woman's life was her family and household. Childbearing played a prominent role in the lives of colonists – a woman bore an average of eight children [Riley 1986, 25]. With the establishment of marriage and household, succession of property became a sign of economic independence for men. On the other hand, women's childbearing and caring roles were seen as indications of virtue, since they contributed to male dignity. Further, female obligations to family life were looked upon as an important pillar of the young American nation during the Revolutionary era (1776–1816). According to Glenda Riley, the conception of women as mothers and wives was strengthened during these years. She writes, “Not only women but men as well gradually accepted the idea that females were innately more loving and nurturing than males… Motherhood was idealized, romanticized, and sentimentalized by Americans who believed that the future of their new nation somehow depended on it” [Riley 1986, 47]. Indoctrinated in such a value system, women conducted their lives accordingly and formed their specific consumer culture and behavior. Some of these characteristics have persisted to this day. For example, the woman’s role as loving family protector can be observed in most commercials for cleaning and washing detergents, where the thoughtful housewife protects her family from the bacteria by purchasing the advertised product. The message of these advertisements to the housewives as target consumers is that by buying the product a woman will not only keep the family members healthy and clean, but also will earn their love and attention. In her analysis of housewives’ lives between the wars, R. S. Cowan points out that guilt and embarrassment made American women worry about their status as good housekeepers. She gives examples from advertisements from women’s magazines during the period 1923 to 1933 and concludes that “Advertisers may have stimulated these guilt feelings, but they could not have created them single-handedly; the guilt must have been there or advertisers would not have found that they could be successful by playing upon it” [Cowan 1986, 155].

The cult of true womanhood – a combination of Victorian and Christian sentimentalism – has entrapped American housewives in a stereotype and has made worries about properly dressing their children and choosing color combinations for the house into “productive” tasks contributing to the well-being of the family. The general perception of the man as breadwinner has identified him as a “productive worker,” thus one with higher knowledge and status than the housewife. Keeping in mind the fact that American women had come to a new continent and had begun to establish relatively more flexible systems of habits, one can expect that that they would hardly be satisfied with their inferior status. Veiling housework with a mystique known only to well-trained, knowledgeable housewives would make women feel closer to the status of their husbands. Having their own sphere of action, women could apply their abilities and imagination by acting the role of buyers.

Except for the above ceremonial reasons, the attitude toward housework as “professional” also had its instrumental roots in technological advancements. Printing, manufacturing, and transportation had been developing constantly, bringing new fields of activities. As Cowan says, “In earlier days the young housewife had to be taught to make things well; in the 20’s she had to be taught to buy things well” [Cowan 1986, 152] . Teaching the housewife to be a smart buyer became the privilege of the manufacturers themselves, who first used the popular women's periodicals as media for their advertisements and public relations.

The first woman to become a Doctor of Philosophy in the field of Home Economics was Edna Day, who organized a department of home economics at the University of Kansas. This new field of education was seen as necessary for women, and appropriate university departments were created. At the University of Chicago, there was a Department of Household Administration; at the University of Illinois, it was called the

Department of Household Science; and at the University of Missouri, the first graduates in Home Economics came in 1910. Women's training as consumers became an important field of education because they were the ones who "choose and use the world's resources intelligently on behalf of family and community" [Hard 1911, 91–95]. In a magazine advertisement from 1907, shown in *Myth America – Picturing Women 1865–1945*, a young woman dressed as a college graduate holds a detergent. The text below says:

> NO INTELLIGENCE REQUIRED – in the Use of PEARLINE – but in the selection of it – YES! Simply SOAK and RINSE – and the Washing is done – that's SIMPLE enough for a child. BUT – to desert the thousand year's old bar-soap-way and to realize that PEARLINE IS MODERN SOAP and to look back on it's thirty years of general use – it's Millions of Users and Friends and Absence of Enemies – there's where Intelligence gets the better of the Dull Ones and accepts the Benefits of PEARLINE [Wald and Papachristou 1992, 17].

From this commercial aspect, one can abstract some patterns characterizing advertising tricks and women's consumer culture from the period. The image of a woman in a graduate robe is supposed to make housewives who use the product identify with the image and feel knowledgeable. Keeping in mind the psychological complex of mental inferiority accumulated throughout the centuries, the advertiser exploits the vulnerability of women by challenging their self-esteem. Emphasizing that the product is modern, the commercial tells the housewife she should go along with the new trends, including her new "intelligent" role as buyer. The attitude of doing as the "Millions of Users and Friends" do is characteristic for the female consumer behavior in the US, and is constantly used by the advertisers.

Women's periodicals played a great role in the formation of the mores and patterns of behavior. *"The Lady's Magazine and Repository of Entertaining Knowledge,"* which began in 1792 was the first periodical that played significant role in the lives of American women [Zuckerman 1998, 1]. The women's magazines that appeared later addressed gender-specific topics like efficient housekeeping, proper lady's manners, fashion, and light fiction. The early periodicals, being relatively expensive, were read by the elite class, and consisted mostly of literature, etiquette, and fashion material with little or no advertisements [Zuckerman 1998, 1]. Innovations in print technology allowed larger circulation because of the lower price per copy. In addition, the railroad system, improved roads and cheaper postal service allowed the beginning of mass distribution of the periodicals. Finally, thanks to the growing manufacturing sector, publishers were able to cut the prices of their journals by offering advertising space to entrepreneurs. That led to a broader audience for women's periodicals and to their greater influence over women's culture.

However, this was not possible until reading became a popular activity, especially among women, who were thought intellectually inferior to men. Puritan women from the late seventeenth- and early eighteenth-century were responsible for reading the *Bible* to their children. Between 1780 and 1830, women began to attend district schools and academies because of the republican motherhood notion that reading was necessary for both sexes [Damon-Moore 1994, 20]. However, there were gender differences between male and female readings. Men were said to be interested in politics, history and technological innovations, while appropriate readings for women were light fiction and helpful hint literature. Traditional stereotypes about the female sex came into play with the establishing of women magazine readers as targets of advertisers. With "female psychology" in mind, advertisers affected the content and the appearance of the periodicals. "Advertisers felt that women preferred little complexity or technicality; they followed commands and directions more easily than men. Appeals needed to be directed to women's feelings, not their intellects. Illustrations worked especially well" [Zuckerman 1998, 67].

Relying on the advertisers, the periodicals' main goal became luring the appropriate reading audience. Women's periodicals included departments for children, anticipating that such features would give mothers another reason to purchase the journal and would help to shape future readers and consumers. The children's departments were split to form gender differences in consumption patterns. The *Delineator* in 1907 had sections called *Jenny Wren Club* and *Boys Knights of the Round Table*. The "Jenny Wrens" were instructed about buying patterns and sewing clothes for their dolls [Zuckerman 1998, 82]. The popular cutout pages featured dolls and clothes, preparing the future grown-up woman for the experience of choosing, buying, and arranging.

In addition, girls' toys were related to the process of gender socialization of the children. For example, young ladies became educated in decorating their future home by playing with scrapbooks and dollhouses, which by the late nineteenth century were proving less expensive. With the entrance of technology advancements in the house, small-scale toy appliances directed girls toward housework and created the habit of using technical novelties, thus molding the consumer culture of the future grown-up women. Imitating their mothers, the girls were themselves engaged in mothering their own dolls and falling into the pattern of consumption that their social environment required. The importance that society gave to motherhood continued, as dolls with adult faces from the Civil War era were gradually replaced with a new French pattern – the child-doll *Bebe* that appeared to be 8–12 years old [Green 1983, 49]. Later, after World War II, with the revolution of plastics, attention to children as consumers grew. In response to the changing popular culture, affected by the technological inventions implemented in the showbusiness industry, the Barbie doll - with its exaggerated grown-up proportions (38–18–34) - was created. The affluent mentality encoded in Barbie will be analyzed in section 2.3.

The mother's responsibility for the formation of proper habits and attitudes for her children has been welcomed by producers and promulgated by publishers and the advertisers. A 1904 advertisement for the detergent *Pearline* shows a little girl, about 6 years of age, involved in washing clothes. The advertisement says, "Train up a child in the way she should go" [Wald et al. 1992, 17]. Examples of similar messages from women's periodicals of this time are numerous. The importance of mothers as consumers and the advertisers' awareness of this can be demonstrated by a commercial of *Parents' Magazine and Better Homemaking* targeting to producers of pancake mixtures, butter, and shortening, published in *Advertising Age* from March 6, 1967. It informs the producers that a select group of women rated "Heavy Users" buy 87 % of all pancake mix; 84 % of all butter; and 96 % of all shortening. *Parent's Magazine* had 76.6 % of mothers 18–39 years old among its audience. The advertisement finishes with this assurance: "Children do make the difference in your sale" [1967, 29]. According to

Advertising Age, children influence more than $100 billion in purchases annually [*Advertising Age* 1991, 25]. They learn how to be consumers especially from their mothers. "The economic power of children has grown much faster than that of any other age group in the past decade… Almost without thinking about it, parents are creating the next generation of spenders" [*American Demographics* 1993, 25].

In addition, the spending habits of mothers are defined by their families' top priorities. When asked what they would do with a lottery award of $200, 59 % of the responding mothers replied that they would choose to spend the money on their families, more than twice the number (27 %) who would put the money in the bank [1994, 302]. This outcome of the *Redbook Parents III Survey* should not be considered a sign of "spending spree" among of contemporary mothers. Instead, it may indicate low family income that requires satisfying basic household needs. However, it shows how of married women's purchasing choices are tied to the needs of their families. The roots of this feature stem from the character of the institution of marriage discussed earlier.

The above discussion shows some stereotypes related to women's social status, which have been shaped their consumer culture. Wives support and assist their husbands; women are attached to their role as homemakers; housework is a professional occupation, and purchasing represents one of its productive roles; and the basic responsibility for childcare is assigned to the mothers – these stereotypes are valid not only for women in the US, but in the context of US history, they contribute to the formation of a specific consumer culture.

2.2. Changes in Consumer Behavior as a Response to Structural Changes in the Status of Working Women in the US

The Civil War (1861–1865) helped to change the model of womanhood by pushing women into the war effort and by the necessity of housewives coping with men's work while their husbands were at the front. Women had to learn new skills, such as how to handle finances. They were also involved in sewing uniforms, organizing fund-rising events, nursing, etc. Some of these activities required mastering new technological devices such as sewing machines, which not only helped to establish the professional status of housekeepers, but also changed the habits of women, who had in the past, worked only at home. Women became decisionmakers in their families. Although many women returned to their homes at the war's end, it was probably difficult for them to resume submissive roles. Questioning of the ideology of women's domesticity dates back to the reform era between 1837 and 1861, when the birth of the clothing industry in America opened new labor opportunities for women. However, society as a whole tended to think that this was a temporary trend and that women would return to their place – at home [Riley 1986, 101]. Women became more interested in improving their health and controlling their reproduction. The birth-control movement took place after the development of vulcanization of rubber in 1843. However, after the Civil War, as a result of the drop in birth rates and the large number of war casualties, there was negative attitude in society toward abortion and birth–control methods. Yet, the possibility of gaining control over their own bodies and lives began to shape the quest for independence of American women. Working women's relationship to consumerism can be traced back to the first steps taken toward women's personal independence in the US.

Democratization of female fashion was one of the symptoms of the changing status of women. The emergence of the dress-pattern industry during the 1860s enabled women to more easily make their own clothes, giving them the freedom to simplify and adjust their clothing to meet the requirements of new social activities. Women's aspirations to wage work, education, and leisure activities such as sports and tango parties modified the clothes and the consumer behavior. In her book *Ladies of Labor, Girls of Adventure*, Nan Enstad notes the influence of two types of mass-produced commodities targeted to a young working female audience: inexpensive clothes and dime novels [Enstad 1999, 17]. The ready-made clothing industry that was initially oriented toward men extended to clothing for women and replaced dressmakers' goods with mass-produced items, which were accessible to more consumers. The number of female workers rose steadily in the 1870s, and many of the new jobs were in the rapidly growing industry of consumer goods [Enstad 1999, 21]. As more women earned money, some industries began to treat them like individual consumers rather than only family members. Dressmakers and milliners followed the technological changes and commercial innovations by transforming their tiny shops into department stores, where more and more women were working. Publishers embarked on a new approach to female consumers, using women advertising agents, magazine editors, public relations specialists, and home economists that became tastemakers in the mass market [Peiss 1998, 226]. The mechanization of textile production in the early nineteenth century changed the type of clothing and social the meanings associated with it. As Nan Enstad notes "When working women purchased clothing, they exercised their new entitlement as workers" [Enstad 1999, 63]. Clothing, along with dime novels, had collective meaning for women's practice of acquiring them. The discussions about them at work established a way of belonging to a group. The consumption of dime novels and fashions by working women from the turn of the twentieth century are related to the social practice of acquiring and shaped imaginative elements in these products, creating a dream world. The elaborate fashions of working-class women and the sentimental fiction demonstrated the aspirations of working women to a privileged status that they lacked. As Nan Enstad points out:

> Working women dressed in fashion, but they exaggerated elements of style that specifically coded femininity; High-heeled shoes, large or highly decorated hats, … and fine undergarments. In addition, they used more color than was considered tasteful by the middle class to dress up their garments and heighten the element of display in their clothing [Enstad 1999, 78].

Enstad sees this cultural style of working women as a way to deny that labor made them masculine and alien to the current society. The class distinction mediated by fashion and popular culture, along with the search for identity, will be discussed in the following section.

The tradition of women working in the household led to the practice of giving the whole of their wages to the family. The changing structure of the labor market due to the adoption of technological innovations did not bring along an immediate change in the economic status of the working women. As Paul Bush concludes in his paper "*The Theory of Institutional Change*," the evolution of culture results from the choices made to adopt or not to adopt technological innovations [Bush 1988, 158]. However, he notes that the intention of society for instrumental improvement by adopting a new technological innovation does not necessarily involve the intention of leaving behind some ceremonial practices of the culture. The formation of the female consumer as an individual became possible when the ceremonial practices became inadequate to the new instrumental values. The institution of the consumer behavior of women has been affected by perpetual ceremonial practices related to the traditional roles of women, and by the changing instrumental environment. According to Julie Mathaei, the characteristics of the women's labor force related to its attachment to the family were transformed by the entrance of married women into the labor market [Mathaei 1982, 279]. The traditional woman's life cycle was changed – from working only before marriage to something closer to the lifetime labor participation profile of the average man. Increasingly expected to remain for a longer period of time in the labor force, women became inclined to invest in having themselves trained for more highly paid jobs. Advertisements in popular magazines like *Vogue* for job training and job openings use adjectives implying that excitement, responsibility, and social status will accompany the new job opportunities. For example: "Executive positions in retailing await trained women. Fascinating, responsible positions in stores or in the teaching of retailing await graduates of the foremost School of Retailing" [*Vogue* 1946]. "Fascinating jobs in modern business are now open to women – college graduates preferred." "You can qualify for fascinating work, good pay and a sound, substantial future" [*Vogue* 1946].

On the other hand, publishers of popular periodicals saw the potency of the growing financial independence of US working women, and followed the motto: "We keep adding readers who keep reading adds." An advertisement for *Today's Secretary,* that appeared in *Advertising Age* compares this periodical oriented to the secretaries with regard to its commercial potential to the top magazines of the 60s like *Vogue, Harper's Bazaar, Seventeen, Ladies Home Journal,* and *Glamour*. The advertisers find this:

> Quite natural on schedules like this. Girls with money. Average $ 10 a week. Largely expendable. And expended. On fashions. Cosmetics. Toiletries. Jewelry. Vacations. And $ 4.50 for *Today's Secretary.* Career girls. You know. Have to keep up. Look smart. Act smart. 175, 000 of them (350, 000 plus, total audience). Cream of the crop. Reach them through Today's Secretary [*Advertising Age* 1967, 125].

This kind of attitude toward working women consumers speaks for the altering economic structure due to changes in the structure of the labor force. The new instrumental way of valuing not only found expression in the changed treatment of women as consumers on behalf of producers and publishers, but also began to mold new ceremonial patterns. The competition in the business environment affected women's perception of success and changed their lifestyles, creating the stimulus for continuous aspiration for satisfying the new "needs" of the growing number of women consumers. Women consumers' participation in traditional markets for men demonstrated their aspiration for obtaining freedom through the purchase of a commodity.

With women entering the labor force, especially in 1970s, traditionally widely read magazines could not adequately grasp their attention. To look at all working women as a homogeneous group without differences in purchasing ability and lifestyle was already a simplification. To reach various groups of working women, magazines used "class" or "mass" strategies. For example, *Executive Woman* and *Professional Woman* were oriented to a narrow elite audience with high incomes [McCracken 1993, 209]. However, women in well-paid professions were not the only group targeted by these kinds of periodicals. Less affluent working women who were pursuing careers and wanted to belong to the affluent working class represented another segment of the reading and buying audience. The periodical *Working Women* included advertisements both for expensive items like computers, cars, and jewelry, and for cheaper items such as cosmetics, which were affordable for the lower-income audience. The simultaneous "class" and "mass" orientation of *Working Women* made it less elite than *Savvy*, but more elite than *New Woman* or *Working Mother* [McCracken 1993, 54].

Women's magazines, the vehicle through which advertisers have traditionally reached female consumers, transferred its style and pattern of addressing its audience to TV channels. The ideology of *Gems* – the first transnational television channel oriented to women from the US and Latin America – is revealed by an advertisement run in the trade magazine *TV World* in April 1994.

> "She's a romantic and a realist. A caretaker and an emerging power. She's the gatekeeper of more than $ 260 billion in the US alone… *GEMS* is her TV. Because we empower her in a way cable programming never has before. And because we know she is a treasure [Galagher 1996, 6].

The new women's economic power, seen as "a treasure" by the marketers, arose from their participation in the work force. Statistics from *The 1993 Information Please Almanac* shows that in 1960, a woman's median earnings (working year-round, full-time), were $3,257 versus men's $5,368, or 60.7 % of a man's earnings, with men's earnings being 64.8 % higher than women's. In 1990, a woman's median earnings were $19, 822, or 71. 6 % of a man's $27, 678, with men's earnings exceeding women's by 39.6 %. On the other hand, in 1981, 16 % of all dual career households had wives who earned more than their husbands. In 1987, 18 % of all working couples' households had wives who earned more than their spouses [Leeming et al. 1994, 242]. As the wife earns an income and supplements the household accounts, she feels she can spend more for personal needs.

Single working women feel freer to shop for themselves, thus representing a target market diversified by age and income. In 1960, the percentage of women who had never yet been married stood at 12 % of all women in the U.S. In 1970, it was 14 %, while by 1992 the never-married women represented nearly 20 % [Leeming et al. 1994, 310]. Table 1 shows the percentage of never married women by year and age for 1970 and 1992, since this period represents the growth of women's participation in labor force. The need of these women to care for themselves is stronger, since "no one else will" [Leeming et al. 1994, 325]. Of single women, 89 % said they used shopping as a way to reward themselves. Table 2 shows how single women from different age groups reward themselves. This "rewarding culture," which finds expression in acquiring by purchase, has its roots in the characteristics of capitalistic society and is nurtured by advertisers. This can be noticed in the numerous commercials for female cosmetics whose message is "Buy it, because you worth it!" Purchasing is an act satisfying not only instrumental needs, but also ceremonial needs related to demonstrating self-esteem and independence. Possessing a car, computer, or real estate is both an instrumental necessity and a social lifestyle, which shows woman's higher status and her freedom. Many advertisements imply that freedom can be obtained through purchase of a commodity. The success of these kinds of messages addressed to female audience is related to the traditional suppression of the female status. Rapid technological innovations give new fields for exploitation of this ceremonial feature of women's consumer behavior.

In 1999, a study by the National Foundation of Women Business Owners found that 57 % of women business owners who use the Internet have purchased online, compared to 40 % of female employees who go online. Women contribute more than $ 3.6 trillion in revenues from their purchases online. Also, 30% of women business owners/executives, compared to 23 % of other working women have ordered from a catalog [Wooded 2000, 1]. This study shows that women business owners are embracing technology as a way of life, not just in business, but also in their personal lives. However, as Edward Comor points out, "In spite of great optimism about the growth of this form of commerce, … it faces potential barrier" [Comor 2000, 105-115]. He notes elements such as money, time, and cultural/psychological inclination, and puts forth the question: can consumers be compelled or convinced to spend money online at levels and at a pace commensurate with investments in e-commerce? Comor points out that the emerging Internet consumption phenomenon may be seen as market growth by the relatively affluent, not the mass market [Comor 2000, 111]. Convenience and saving time are adequate factors for working women with high incomes. However, the habits and methods of purchasing will change gradually when e-commerce becomes accessible as the mass market. When this occurs, women's consumer behavior will be influenced by the instrumental characteristics of reality, but currently, the institutional construct of consumption assists class distinction among women consumers with regard to online buying.

2.3. Class, Social Identity, and Conspicuous Consumption among Women in the US

Consumption is an element of a class society that facilitates people's claims of belonging to a particular class. The aspiration toward acquisition of commodities creates a conflict with the existing income and wealth inequalities. Consumer behavior is not necessarily commensurate with the actual status of the buyers; it demonstrates their claims for this status. The attempt to acquire an identity entitled by goods represents aspirations to belonging to a particular social class. US society traditionally perceives that material abundance, achieved by an individual through a market-driven economic system, contributes to "good" order in terms of human values and efficient management of resources. Yet this ideology, while sustaining mass consumption, fails to offer a solution to the inequalities characterizing the institution of consumption. In fact, the American hedonistic model of affluence relies on the idea of hierarchy and preaches that creation of mass production "empowers" the lower social classes. In the face of the entrepreneur, the capitalistic ideologist sees a creative element that makes possible the absorption of technological innovations in people's everyday lives. The neglected "contribution" of mass producers is the molding of the mass consumer's features, which is, in fact, the essence of a capitalistic society. The purpose of the capitalistic system of production is not to "empower" all classes through their purchasing ability, but to create and change the identities of consumers while increasing the market size.

Desire for acquisition of a commodity evolves when the individual wishes need to fulfill a certain need. "Need" refers not only to the apparent physiological necessities and to the aspiration for particular status, but also to the instrumental realities. For example, the use of the car as a symbol of class membership was not possible before the invention of the motor engine. "Educating" consumers about their new "needs" is the main task of the marketer, which is achieved through advertising and public relations. Thus, fashion and show business, via the electronic media, participate in the formation of new personal identities and patterns of behavior within the conditions of a class society. The products of the centralized entertainment industry disseminate its material to a nationwide audience, which becomes more and more homogeneous in its tastes. On the other hand, this audience increasingly has became international, since U.S. films and television programs dominate the video imports of most nations in the world [Ettema et al. 1994, 115]. Because women have been seen as major consumers, there is an emphasis on manipulating their self-image through the media. As discussed above the development of consumer society has been impacted by the established gender roles, which are continuously adjusting.

In the United States, the ideology of "perfect womanhood" began to mold the consumer culture of American women with the introduction of magazines such as *Godey's Lady's Book*. "The magazine inculcated the pursuit of dress as a most important duty of the woman, as part of the ideal of gentility and religion set before the perfect lady" [Colidge 1972, 161]. In her study *"American Women – images and reality"*, Colidge quotes 1910 material in a women's periodical: "… Now, it is as well understood and accepted as any other duty, for being well-dressed, which means suitably dressed, imparts the serenity and poise which make for happiness; and the woman who is happy and well-poised makes everybody around her better and more serene" [Colidge 1972, 162]. The traditional accessory role of women finds its expression in societal expectations that females contribute to the goodness of "everybody around". In addition, as Colidge notes, the "duty" of being well dressed is an invitation to throw away the old and buy the new. She points out that what men used to spend on cigars and tobacco, club life, and heavy drinking, women compensated for by elaboration of their dress.

> As a result of the combined influence of economic forces and social traditions, centering in dress, women have acquired a set of habits of expenditure and thinking which lead to discontent and waste of time in the trivialities of taste, in the pursuit of petty economies, and in the discussion of dress detail [Colidge 1972, 167].

The importance of women's clothing may be represented by the idol of girls in the US from the past half century – Barbie. Coming into existence in the period during the formation of the American suburban class, Barbie reflects the middle-class consumption lifestyle and the personal aspiration for material success. The image of woman as an accessory fitted into the emerging suburban culture, but has adjusted with the change in technology. Commodities, which are promoted through Barbie, are not limited only to clothes and furniture but include make-up, sports accessories, cars, and whatever items are available to consume in the new instrumental reality, which involves more and more activities. Barbie and her numerous friends introduce awareness of these commodities and induce a large range of "needs" into children's mentality, who perceive these needs as "natural" and find that they are "absolutely necessary," not only for acquiring as many friends as Barbie, but also for achieving her high material status. Looking upon this doll as a model, the child desires to identify herself with it while experiencing the material hierarchy in society. Implemented in the mind of the future female consumer, the habit of commodity acquisition and the inclination to follow preached patterns of behavior make women who have grown up in a "Barbie culture," a suitable target market.

The institution of fashion is defined by traditional views and changing instrumental values. It is a channel for identity formation and, through that, for class distinction. As a social construct for a symbolic way of communication, fashion represents a continuous mechanism, which both is defined by and defines the social order. As Gabriel Weimann notes "… the need for fashion correlates with the amount of stratification and sub-divisions of society and is aided by the need to symbolize mobility and class identity in modern, open systems" [Weimann 1994, 141]. Living in particular geographic and time constructs, consumers act in accordance with fashion. Their behavior does not fit the traditional view of economic rationality, since buyers are more interested in the ceremonial function of the product than in its instrumental function. However, if we look at consumer behavior as an institution constituted by both instrumental and ceremonial factors, we still can view buyers as rational actors, since they behave in ways that are guided by their needs – instrumental and ceremonial. Thus, the process of "buying" identity, although inspired by emotional rather than instrumental motives, represents a rational behavior in a stratified society based on hedonistic principles.

In the US, women's aspiration for social approval has been related to their desire to keep up with popular trends while, at the same time, sustaining the illusion of being different and special. Marketers have nurtured this attitude. One of the numerous early commercials that illustrate the importance of exclusivity and the opportunity to achieve special status by possessing the advertised product reads: "For Beautiful, Exquisitive, Lovely You. The Luxury of a Chandler Shoe. Unrivalled elegance for your most Supreme moments. Fashion's artisans take treasured leathers and create their most inspired shoes… Admired by many but worn by few" [*Vogue* 1946]. The message not only uses praising adjectives to demonstrate the special qualities of the commodity, but also suggests superiority over women who can not afford them. The advertisements from women's popular journals from the '40s and '50s illustrate a class-stratified society based on the principle that the ability to be conspicuous is a feature of virtue. This trend illustrates the class, rather than mass, orientation of the periodicals.

The '80s magazines such as *House Beautiful, Town & Country,* and *House & Garden* focus on a more affluent audience than the other lifestyle journals, emphasizing the emotional values of interior design and culinary through supportive articles. According to Michael Argyle, social class can be assessed from the contents or decoration of homes [Argyle 1994, 114]. He notes that middle-class homes are designed more for entertainment and self-expression, accepting elements from museums, art galleries and libraries. Argyle quotes a study by Laumann and House from 1970, in which 897 white adults in Detroit were interviewed and the contents of their living rooms were checked. The study analyzes the data in two dimensions. The first dimension correlates with income, occupation, and education. The second dimension is interpreted as traditional versus modern. Within the upper-income group, traditional interiors were found in the houses of white Anglo-Saxon Protestants, who followed the fashions of the traditional upper class. Modern interior design was found in the homes of the upwardly mobile class, "who were aspiring to high social status, but exercised new forms of conspicuous consumption, which showed both their status and their rejection of snobbish, traditional society" [Argyle 1994, 116]. The female buyers' choices with regard to their households are related not only to their financial ability but also to their interactions within their work environment, which is crucial for defining the forms of conspicuous consumption. In addition, Argyle finds that in higher social classes the meals are more formal and elaborate especially when there are guests [Argyle 1994, 117]. Another dimension of distinction with regard to meals is the traditional or modern orientation of women, which is related to their work experience. Highly paid working women not only consider ease of preparation and health concern important factors in their choices, but also dine out more often, either on business or personal occasions. Having a meal outside the home can be a form of conspicuous consumption with regard to place and demonstrates class belonging. It involves expensive and elaborate food, appropriate clothes, jewelry, make up, hair styles, and even cars.

The language of display is engraved into the habit of thinking and conduct, and according to Eric Rothenbuhler, represents thoughtful acceptance of an imposed order of thought. People willingly submit to an external order of signs and behave accordingly. Thus, female consumers in the US act in harmony with the constructed hierarchical order, which involves the use of ceremonial language as a means for demonstrating class belonging [Rothenbuhler 1998, 129].

Conclusions

The historical evidence presented in this paper and discussed in the institutional framework of instrumental and ceremonial analysis leads us to two main conclusions about women's consumer behavior in the US. First, women's behavior alternates historically in accordance with the change of the instrumental and ceremonial realities in the US. Second, women's consumer behavior is influenced by the prevailing ideologies in the American society, which are historically determined. In the US throughout history, three ideologies seem to have strong impact on women as consumers.

The *ideology of women's domesticity* has two ostentatious outcomes. First, it makes women to identify their needs with the needs of their family. Second, domesticity and childbearing, via mothers' influence on their children, contributes to the preservation of existing patterns of consumer behavior. The *ideology of "You can do it"* -- promoting the multifarious roles of women inside and outside the home -- is relevant to the mass production of convenient and timesaving goods, which are used by working mothers and housewives. The *rewarding ideology -- "You worth it!"* promotes individualism, consumerism, conspicuous consumption, and thus class distinguishing. All of the three ideologies that have molded women's consumption habits in the US can be seen as complementary to the *ideology of capitalism,* which praises acquisition and possession of goods as a proof of social and personal mores. Outcomes from the impact of the capitalist ideology on American society that are suggested by the present case study are class stratification and consumerism.

The conclusions about consumer behavior among women in the US provide us with bases for extrapolation of conclusions about gender-defined consumer behavior. First, we have seen that, with respect to gender, consumer behavior is defined by gender roles and gender status in society changing through time. Second, it is based on stereotypes which are based on habits of doing and valuing, on ideology and interest of groups having power discretion. The stereotypes are emphasized by the media and thus depend on the instrumental reality -- technology, the political order. In addition, the historical evidence has demonstrated that gender stereotypes are both exploited and created by vested interests.

The third group of conclusions based on this case study concerns the institution of consumer behavior as a whole. These conclusions are of interest because they may be used as basis for an alternative framework of consumer theory. First, consumer behavior is historically formed. Second, it is based on habits of doing and is defined by the social standards for valuing. Third, consumer behavior takes place within particular instrumental and ceremonial realities. Hence, we can propose the following framework for consumer analysis.

Consumer Behavior = *F* (Instrumental Reality; Ceremonial Reality)

Instrumental Reality = *F* (Level of Technology -- different levels of needs and wants; History; Type of Social System; Bonding Habits).

Ceremonial Reality = *F* (Technological Ability for Channeling Stereotypes, Popular Culture and Ideologies -- Media, Infrastructure; History; Prevailing Economic and Political Ideology; Vested Interests.

It should be noted that the instrumental and ceremonial aspects of the institution of consumer behavior should be perceived along a means – ends continuum. Therefore, the variables of instrumental and ceremonial realities are in continuous interaction with each other and with the formation of consumer (class) identity. The dichotomized model helps to reveal the complexity of the consumer behavior institution by representing it as a social construct. Its purpose is not to divide the factors, which form the institutions, but to emphasize their role and help in analyzing their interaction. As a whole, consumers' identities are formed in the instrumental and ceremonial environment in which they live and are historically defined. Thus, comprehensive analyses of consumer behavior are not possible in the framework of the currently dominant mainstream tools for analysis.

An alternative framework is one that:

1.Recognizes the interdependence with the production process, taking into consideration economic power, vested interests and instrumental reality.
2. Does not assume rational behavior -- considers habits, gender, class, etc.
3. Employs qualitative and quantitative data.
4. Looks at consumers in the context of their social environment, interaction and interdependence.
5. Uses historical time, not space analysis.

The proposed framework allows for cross-cultural, cross-gender studies and for historical time change. If used, the above framework may be developed further and may be able to look at consumer behavior not only as an indicator, but also as a channel, for inequality and class stratification. This proposes that consumer theory may be involved in analyses of inequality and class, issues that commonly are perceived as a domain of macroeconomic policy and of sociology. The proposed framework, allow analyzing the impact of the production process, and of activities inside the firm, on social issues.

The above conclusions lead us to some implications for Economics as an inquiry about economic activities. The conclusions suggest that economists should analyze the activities inside the firm together with the habits of consumers in historical and geopolitical, and geographical perspectives. Economists should not feel that the use of qualitative data (such as historical evidence and interviews) falls outside their research field. They should consider an interdisciplinary approach toward the issues they analyze.

Finally, analyzing economic behavior as constrained by ceremonial and instrumental realities excludes the notions of rational choices and utility maximization. This approach does not use the popular concepts of Utility Function, Indifference and Demand Curves. The alternative framework does not employ derivation of Demand Curves, Consumer Surplus and Substitution Effects, thus, it implies the irrelevance of the concepts of equilibrium or disequilibrium for economic studies. By demonstrating that economic agents act driven by historically formed habits that represent ideologically based ceremonial values, the present paper challenges the dominant framework of economic analysis, which has no notion of historical time. Thus, the proposed alternative framework implicitly questions the ideology of capitalism that it sustains via its unrealistic assumptions. In addition this framework opens avenues for *inquiry about the final form of capitalism* and implies a possibility for *its evolution*.

Table 1. Percent of Never Married Women in the U.S.

AGE	1970	1992
18-19	75.6	90
20-24	35.8	65.7
25-29	10.5	33.2
30-34	6.2	18.8
35-39	5.4	12.6
40-44	4.9	5.3
55-64	6.8	4.0
65-74	7.8	4.4
Over 75	7.5	5.4
Total	13.7	19.2

Source: *Statistical Abstract of the U.S.* [Leeming, et al., 1994, 310]

Table 2. How Single Women Reward Themselves

"I REWARD MYSELF BY…"	Total	18-24	25-29	30-40
Shopping	89%	92%	89%	83%
A favorite activity	75	77	77	68
Beauty treatment	38	41	38	34

Source: *Segmenting the Women's Market* [Leeming et al. 1994, 324]

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