Journal of Post Keynesian Economics ›
Volume 41, 2018 - Issue 3

Articles

Institutions in the economy and some institutions of mainstream economics: From the late 1970s to the 2008 financial and economic crisis

David Dequech

Pages 478-506 | Published online: 10 May 2018

Cite this article https://doi.org/10.1080/01603477.2018.1431796

ABSTR

This arti ... the relations
between ... uctured
survey c ... nd the
institutic ... omics,
highl ... cusing on
the U ... ed systems
of rules ... rules are
socially ... they are
socially ... agents and
policyma ... . On the
other hand, there are important limits to the influence of the institutions of economics

outside academia, and institutions in the economy also influence the institutions of economics.

KEYWORDS: Crisis finance institutions macroeconomy mainstream economics

JEL CLASSIFICATIONS: A11 A14 E02 G01 G10

Notes

[1]This concept of conventions is intentionally less restrictive than game-theoretic ones. It is, however, more specific than the concepts underlying the analyses of conventions in the American economy by political scientists Blyth (2002) and Nelson and Katzenstein (2014). The nonsuperiority of conventions raises the question of how some rules become part of mainstream economics without being demonstrably superior to one or more alternatives. On this and on the mechanisms through which rules become conventions, see, again, Dequech (2017).

[2]Several references will be provided in the next sections, together with examples of the arguments made in this section.

[3]For Campbell (1998, p. 390), prestigious academic ideas have an advantage when it comes to influencing what he calls paradigms, "broad cognitive constraints on the range of solutions that actors perceive and deem useful for solving problems," as distinct from "programs," which are "precise, concrete, and policy-specific courses of action ar

[4]This iss ics. Some referenc be examine

[5]This ussion of the scholas not to use the sam

[6]Althoug y nonmair

[7]Fundamental uncertainty is the lack of knowledge resulting from the possibility of nonpredetermined structural changes. Procedural uncertainty results from the contrast between the complexity of the situation and the agents' limited capabilities. See Dequech (2011).

[8]Dow (2015) did not explain which institutions and conventions were those. Conventions, informal social norms and contracts emerge among private agents, but some institutions are implemented by policy. Perhaps Dow is thinking of reforms implemented in the 1930s (such as the New Deal in the U.S.) and/or the Bretton Woods system. Some policies may aim at reducing instability, but this does not necessarily mean that they are guided by an economic theory that emphasizes fundamental uncertainty or by any other academic theory.

[9]Campbell (1998) pointed out the influence of mainstream economics on the paradigms employed by actors in the 1970s/1980s but associates neoclassical economics more strongly with free market ideas and less with the kind of Keynesianism that prevailed in the 1950s and 1960s, while I see neoclassical economics as compatible with both.

[10]Among the earlier developers of VaR was Kenneth Bargade (PhD in economics, Princeton, 1975). For a critique of VaR, see Crotty (2009).

[11]On the origins and diffusion of the copula method and the influence of mainstream financial economics, see MacKenzie and Spears (2014).

[12]Confidence in risk-assessment models also underlies proposals for bailing in banks (Dow, 2016a).

[13]Nelson … of excessive risk taki… confidence depends … present discussi… tion mean that t… en neglected by m…

[14]The re… p. 177) argued, … at the time, the ager… gencies did not seer… ewhere.

However, S&P, in 2015, and Moody's, in 2017, agreed to pay US$1.4 billion and US$900 million, respectively, to settle lawsuits.

[15]The efficient market hypothesis also "provided a compelling rationale for the re-orientation of companies toward shareholder value. … [T]he science and institutions of finance co-evolved to a degree unknown in most other domains, often with the aid of financial economists themselves' (Davis, 2009, pp. 20, 22, 56, emphasis added).

[16]Blyth (2002, pp. 169–171) referred to monetarism as a new convention of both the Fed and financial markets. See also the references below to Abolafia (2012) on legitimation.

[17]According to Krippner (2011, p. 117), "[u]nlike academic monetarists, the FOMC staff was never under any illusion that it would be possible to precisely control the money supply."

[18]Relatedly, Dow (2016b) examined differences in how policymakers, market players and households frame finance.

[19]On Friedman and funding, see also Van Horn and Mirowski (2009, pp. 166–168).

Additional information

Funding

This rese ic and
Technolo ate
Researc

Notes o

Da

David D
Campir

Related Research Data

Using Minsky's Cushions of Safety to Analyze the Crisis in the U. S. Subprime Mortgage Market
Source: Informa UK Limited

How Financial Models Shape Markets
Source: The MIT Press

Narrative Construction as Sensemaking: How a Central Bank Thinks
Source: SAGE Publications

Neoclassical, mainstream, orthodox, and heterodox economics
Source: Informa UK Limited

A New Foundation for Economics
Source: The MIT Press

L'institutionnalisation de l'économie financière : perspectives historiques
Source: CAIRN

Neoliberalism in crisis: Regulatory roots of the U.S. financial meltdown
Source: Emerald Group Publishing Limited

Forecasting as Valuation
Source: Oxford University Press

From Social Control to Financial Economics: The Linked Ecologies of Economics and Business in Twentieth Century America
Source: Springer

The Destruction of Shared Prosperity and the Role of Economics
Source: Cambridge University Press

Crisis and Sustainability
Source: Palgrave Macmillan UK

THE F SSION
Sourc
The r
Sourc
Econ
Sourc
S the
Fi
Sourc
From
Sourc
Expe
Sourc

The Current Economic Crisis and Lessons for Economic Theory

Source: Columbia University

Central Banking And The Triumph Of Technical Rationality

Source: Oxford University Press

The Anatomy of the Mortgage Securitization Crisis

Source: Emerald Group Publishing Limited

Institutional analysis and the role of ideas in political economy

Source: Springer Science and Business Media LLC

Discipline and Profession in the United States, Britain, and France, 1890s to 1990s

Source: Princeton University Press

Uncertainty: A Diagrammatic Treatment

Source: Walter de Gruyter GmbH

Uncertainty: A Typology and Refinements of Existing Concepts

Source: Armonk

Reading the right signals and reading the signals right: IPE and the financial crisis of 2008

Source: Informa UK Limited

Knowledge and Liquidity: Institutional and Cognitive Foundations of the Subprime Crisis

Source: Emerald Group Publishing Limited

Budget Deficit Alarmism Is Sabotaging Growth

Source: Informa UK Limited

Economic institutions: explanations for conformity and room for deviation

Source: Cambridge University Press (CUP)

Karl Polanyi's Critique

Source: Harvard University Press

The New Neoclassical Synthesis and the Role of Monetary Policy

Sourc

The F ... 1970

Sourc

The E

Sourc

Frami

S

Ins

Sourc

Struc

finan

Sourc

A crit ... ensus

macroeconomics framework

Source: Oxford University Press (OUP)

The evolution of macro models at the Federal Reserve Board

Source: Elsevier BV

INSTITUTIONAL TRANSFORMATION AND STATUS MOBILITY: THE PROFESSIONALIZATION OF THE FIELD OF FINANCE

Source: Academy of Management

Related research