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International trade policies for transition economies: the Post Keynesian alternative

The implementation of the shock therapy approach in transition economies required, with respect to international trade, an immediate and complete liberalization of the international trade sector. This involved a flexible exchange rate, resulting in currency devaluation and the removal of all trade barriers. Furthermore, the conditional nature of foreign aid and international credits by the IMF, the World Bank, and mature market economies was used to pressure governments and the citizens in transition economies in supporting the shock therapy transition plan. The shock therapy policies had well-known outcomes: a substantial reduction in output and employment, hyperinflation and current account deficits. These policies were essential, the shock therapy supporters argued, to stimulate "creative destruction." In contrast, for the Post Keynesians the "short-term necessary adjustments" stipulated by shock therapy supporters were not required. An alternative strategy based on a managed transition process guided by active government intervention would have not resulted in the "necessary" negative outcomes associated with the shock therapy transition process. Based on Post Keynesian propositions the goal of transition should be the development of a civilized market capitalist society (Davidson and Davidson, 1996; Marangos, 2000–2001). A civilized society required the establishment of the institutional prerequisites for market capitalism, which naturally is unstable, to provide full employment and economic growth, reducing insecurity and high living standards (Peterson, 1996, p. 167; Minsky and Whalen, 1996–1997, p. 168).

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The aim of this paper is to offer an alternative set of international trade policies for transition economies based on Post Keynesian propositions to achieve a civilized society. Post Keynesians would recommend a fixed exchange rate, protection from imports, and the establishment of an Eastern European Clearing Union. These international trade policies, which were in conflict with the shock therapy policies implemented, would have resulted in substantially reducing the transition cost and corruption, stimulating a civilized society.

The relevance of Post Keynesian economic analysis for transition economies

Post Keynesianism is based on the writings of John Mayard Keynes, particularly *The General Theory of Employment, Interest and Money,* which has imperishable relevance to current economic and social problems (Shackle, 1973, p. 516). Keynes (1936, p. 372) argued that the most prominent failure of the market system was its inability to provide full employment.

Post Keynesians reject the three assumptions of orthodox economic theory: that the economic environment is ergodic (that the future can be estimated from past statistical information), the neutrality of money (changes in money cannot influence real economic variables), and gross substitution (everything is substitutable for everything else). The nonergodic economy argument erases automatically the remaining two assumptions of the orthodox model. Post Keynesianism is a more general theory because it is based on fewer assumptions (Davidson and Davidson, 1996, p. 494). The transition process was a nonergodic process because neither the result nor the probability distributions could be deduced from the past, which makes the Post Keynesian economic analysis relevant in devising transition policies. The transition was an unfamiliar idiosyncratic process.

Post Keynesians argue their analysis is concerned with the dynamic behavior of the economic system and resource allocation. The economic system expands or contracts in time from an irrevocable past to an uncertain and statistically unpredictable future. The concept that the economy moves to a unique and exogenously established equilibrium has no relevance for the real world (Davidson, 1994, p. 17; Cornwall and Cornwall, 1997, p. 538). The capitalist economic system lacks any internal self-correcting mechanism for maintaining appropriate levels of aggregate demand, low levels of unemployment, and stable prices.

Thus, government economic policy was essential in avoiding such market failures (Cornwall, 1979, p. 26; Cornwall and Cornwall, 1997, pp. 525, 538). Post Keynesians elevate the role of effective demand in a monetary economy as the engine of economic growth, and this distinguishes Post Keynesianism from other schools of economic thought. The goal of economic policies and institutional arrangements is to encourage high levels of aggregate demand with the aim of achieving and maintaining full employment (Arestis et al., 1999, p. 546).

One of the fundamentals of Post Keynesian economics is the uncertainty of the future. "In economics one wisely deals with the possible, on occasion even the probable, never the certain" (Galbraith, 1998, p. 13). The economy operates in historical time, which implies that its past is unchanged and that the future is uncertain. Economic actors make decisions with partial ignorance due to the fact that information does not exist and cannot be inferred from any existing data (Moore, 1979, p. 121; Setterfield, 1998, p. 168; Dequech, 1999, p. 415). Thus, "history matters and agents are uncertain" (Dunn, 2000, p. 4). Once uncertainty is recognized as a deep attribute of real-world economies, the traditional concept of equilibrium is undermined and the simplistic propositions of laissez-faire are no longer relevant (Robinson, 1979, p. xi; Minsky, 1996, p. 367). This is because uncertainty about the future results in economic crisis and instability (O'Hara, 1999, p. 129). In a world of rational expectations, the future is a statistical image of the past, while in a world of uncertainty, the current outcome cannot provide information about the future accurately; thus free markets are not necessary efficient (Davidson, 1994, p. 72).

The Post Keynesian methodology offers an alternative to the dominant neoclassical economic theory, which is irrelevant to real world economic processes and restricts sensible economic policy (Eichner, 1979, p. 4; Fazzari et al., 1998). It could be argued that Post Keynesian policy recommendations would have been more relevant to the transition economies than neoclassical ones, where uncertainty was a characteristic of the process. In addition to the uncertainty associated with the normal functioning of the market, the transition process gave rise to "transition uncertainty." The transition uncertainty was due to institutional and systematic transformation, behavioral inheritance of the past and political and social changes (Lah and Susjan, 1999, p. 591). The traditional notion of rationality (optimal positions are always calculable) was irrelevant. Procedural notion of rationality (the limited ability to process information) was relevant for transition economies, due to the inability of the individuals to process information under transition uncertainty.

The Post Keynesian critique of the shock therapy international trade policies

Post Keynesians recognized the positive benefits associated with international trade. "Russia cannot continue as a closed economy. Without opening up there can be no effective restructuring, no true competition, and no learning-by-doing process" (Yavlinsky and Braguinsky, 1994, p. 111). Meanwhile, because open economies are more complex than closed economies, the market outcome would be even less likely to be a socially desirable outcome (Davidson, 1994, pp. 198–199). Active government intervention was essential from the start, to restructure the external trade and payments appropriate to a market economy (van Brabant, 1991, p. 86). Thus, consistent with the Post Keynesian recommendations for the transition process, international trade should also be introduced gradually, in an organized fashion and by using social benefit as a measure of effectiveness.

Contrary to the neoclassical view, Post Keynesians argued that an appropriate level of protection would have been essential for enterprises to survive in an uneven playing field. The experience of mature market economies revealed that their development and industrialization was strongly linked with protectionist measures. Consequently, globalization did not automatically result in trade liberalization; rather there seemed to be powerful forces that supported the construction of trade barriers. In the Post Keynesian model the effect of protection on the prices of finished products is quite small due mainly to tariffs on inputs and production depends on demand. While in the neoclassical model the effect of protection on prices of finished goods is complete, material tariffs are never influential and production effects are entirely supply determined. Thus tariffs produce a demand and not supply reaction, and price changes are minor (Norman, 1996, pp. 523, 528). Consequently, based on the Post Keynesian model, transition economies should not have expected a substantial reduction in prices or inflation by removing tariffs.

The total liberalization of foreign trade would damage those industries, which were technologically advanced but uncompetitive in the international market. The movement to free trade, which did not take into account the inefficiencies due to a long period of protection and the resulting distortion of resource allocation, resulted in a massive reduction in domestic output. Due to uncertainty and instability, domestic investments were not sufficient to stimulate changes in production. There was a bias toward luxury goods produced abroad—such as the Cadillacs

for sale in Russia—because they were not produced domestically or were of poor quality. All this resulted in a current account deficit, which could be financed by capital inflow, by foreign aid, or by reducing domestic demand. Consequently, tariffs and convertibility restrictions were essential in protecting infant industry, to restrict the consumption of foreign products and allow time for producers to enhance product design and quality (Bofinger, 1991, p. 247). The negative consequences of protectionism in mature market economies were due to the levels it reached and its poorly administered nonaccountable nature. Hence, "it is necessary to assess protective measures not in terms of market efficiency but in terms of a wider set of social values" (McClintock, 1996, p. 233).

The neoclassical transition model approach relied on large depreciations of the exchange rate and on reductions in real wages and government expenditure to reduce imports, with no protection. This policy supposedly would have resulted in reduced inflation. However, output fell more than aggregate demand and imports increased, putting pressure on the exchange rate. In the end, and in addition to the reduction in government expenditure, a further depreciation was necessary, accompanied by inflation and unemployment. An increase in exports was extremely difficult, under the economic conditions of stagflation and recurrent depreciations. A "surprising" result was that the smaller transition economies were able to expand exports to the European Union after the initial shock of stabilization policies. However, it can be argued that the expansion of exports was not associated with shock therapy, but rather with gradualism, which the Post Keynesians were in favor. The governments, which implemented the shock therapy approach, were not able to survive after the first term in office; all governments, which implemented shock therapy, lost power after the first elections in office. The newly appointed governments implemented gradualism (Marangos, forthcoming).

Sachs (1996, p. 149; 1997, p. 249), Aslund (1995, p. 183), and Sutela (1992, p. 92) were in favor of a pegged exchange rate in the start of the stabilization program, and then after one or two years a move toward a flexible rate. With respect to the transition economies, which implemented shock therapy, the early peggers—Czech Republic, Estonia, Poland—performed a lot better than the floaters, both in terms of success of disinflation and the cost of disinflation. The peggers achieved inflation below 100 percent per year by 1994 (Sachs, 1996, p. 149). The successful short-term implementation of the pegged exchange rate can be interpreted as argument in favor of a fixed exchange rate system and gradualism, which the Post Keynesian approach was in favor.

The Post Keynesians insisted that the introduction of a flexible exchange rate system, which can be immediate, or through the use of the pegged exchange rate, would not reduce short-term movements or produce some confidence in stability. It only encouraged financial currency speculation and not production, discouraged forward contracts, and encouraged stagnation in the domestic and world economy (Wray, 1996, p. 143; Davidson, 1994, pp. 238–239). It prompted countries to solve the problems of unemployment and inflation by shifting them to their trading partners, in an uncivilized manner (Davidson, 1994, p. 262). The *Financial Times* and the *Economist,* which supported the freely floating exchange rate and pressured the international community to adopt it, have changed their view. They have admitted it was a failure and that the advantages were grossly overestimated (Davidson, 1994, p. 264; Davidson and Davidson, 1996, p. 182). In addition, access to foreign capital and technology would be constrained by the instability of the exchange rate. Governments in the transition economies were tempted, given a lack of capital inflow, to provide concessions to foreign capital, which put economic and political sovereignty at risk.

The introduction of a freely floating exchange rate, as witnessed in mature market economies, resulted in a reduction in the standards of living. Expansionary monetary and fiscal policy in a flexible exchange environment result in exchange rate depreciation, a reduction in aggregate demand, inflation and capital flight, leading to both budget and trade deficits. Exchange rate considerations limit individual countries from pursuing autonomous monetary policies and pursuing full-employment fiscal policies (Palley, 1998, pp. 345–346). This is because it is not possible to achieve full employment and balanced trade at the same time by maintaining purchasing power parity (Blecker, 1998). Thus it "is a barbaric conservative policy that can improve one's own job position only by exporting unemployment. The ultimate effect of these policies is to reduce the standard of living of both deficit and surplus nations" (Davidson and Davidson, 1996, p. 184). The resulting trade wars created instability and were to the detriment of the whole international community.

Is comparative advantage relevant?

The emphasis of the shock therapy on comparative advantage as a means by which international trade would take place, ignores the role of economies of scale, which might be more important than comparative advantage (Yavlinsky and Braguinsky, 1994, p. 104). In such circumstances,

the substantial reduction in output initiated by the implementation of the shock therapy transition model had a negative impact on international trade because firms were unable to exploit economies of scale, which proved to be far more important than assumed by neoclassical analysis. Actually, in a world of imperfect competition and market power, domestic firms forced consumers to pay higher prices to make their products effectively cheaper overseas, cross-subsidizing export growth.

The comparative advantage theory of international trade was developed in a specific historical period where economic location was determined by natural resource endowments and capital-labor ratios. Today, this has been replaced by an era of knowledge-intensive industries where comparative advantage is man-made rather than created by Mother Nature and history (Thurow, 1996, p. 196). Natural resources have ceased to dominate economic activity. Long-run economic growth is the result of not only the country's resource endowment but also most importantly on its capacity to satisfy both domestic and foreign demand by using knowledge-intensive production processes (Alonso and Garcimartin, 1998–1999, p. 277). Differences in production opportunity costs are not due to resource endowment, but on money wages, which reflect what each society believes to be civilized working conditions (Davidson, 1994, p. 242). The presence of high and persistent unemployment and of very large transaction costs contradicts the assumptions of comparative advantage (Thurow, 1996, pp. 215, 217). Hence, Post Keynesians argue comparative advantage is irrelevant. Industry policy should facilitate strategic economic advantage.

Foreign aid and foreign debt

The financial assistance provided by the mature market economies has been disappointing. The transition economies had to depend on their own resources. In addition, due to the relative scarcity of foreign capital and international aid, transition economies competed only in providing concessions. This may have enabled them to acquire the necessary financial resources, Post Keynesians conceded, but it has had irreversible consequences for the future. It has created heavy reliance on voluntary movement of capital and handouts from international organizations, reducing international sovereignty and jeopardizing the development of a civilized society. The transition economies would be able to stand on both feet only after an extensive debt cancellation program, together with substantial foreign aid not only to assist the transition program, but

also to maintain political support and the development of a civilized society. Foreign aid benefited the donor economy as well as the recipient transition economy because it helped stimulate increased international trade and strengthened relationships in the international community. A prime example is the Marshall Plan's large economic aid program after World War II. The European countries received financial aid to buy American products; this facilitated restructuring in both Europe and the United States.

The transition economies have accumulated large debts, due to the previous state of affairs or due to the transition process. Repayments are not possible in the foreseeable future, especially under the burden of the shock therapy process. It is very likely the transition economies will default due to increasing compound interest. Under these circumstances, foreign investors might remove their financial assets resulting in a speculation of the currency, creating instability not only for the transition economy but for the whole international financial system. This would have harmful consequences on the transition economies attempting to restructure their economies. The development of a civilized society, as Post Keynesians argue, requires an international financial system, which prohibits the movement of financial capital for speculative reasons. Indeed Keynes argued that capital controls, both inward and outward, should be permanent (Arestis and Sawyer, 1993, p. 28). Thus the Post Keynesians concluded that the transition economies, due to the freely floating exchange rate and the free international market, were contributing to the international debt problem, which threatened the viability of the international financial system.

An Eastern European clearing union

Under the current structure of the international financial system, countries can achieve growth only by stimulating exports and restricting imports through various forms of protection. The "economic miracle" is in their ability to achieve growth by giving advantages to domestic industries at the expense of imports, especially from the Third World countries. Countries with large trade surpluses were unwilling to increase imports at the expense of their domestic industries. This made it extremely difficult for transition economies to gain entry to international trade. The current international trade and financial structure falls short of achieving an affluent international community, as there are no incentives to solve the persistent trade deficits and international debts of the

transition economies. Thus, the only alternative remaining is to force them to depress their economies to reduce income, imports, and their living standards. However, this would also have a negative impact on mature market economies by reducing employment and income in trade surplus countries (Davidson and Davidson, 1996, pp. 198–199). Trade surplus countries should be motivated not only by self-interest behavior but also by civic values, so that they can exercise civic responsibilities without endangering their international position and develop an international system which fosters growth for the whole community.

The neoclassical perception was that, in the long run, the international financial market would reach equilibrium. Post Keynesians argued that this would not, however, eliminate the problems associated with the substantial decrease in living standards, corruption, and crime, all of which reduced the possibility of a civilized society. There was a need to develop a new mechanism for international affairs, which would facilitate economic development, not only for the transition economies, but also for the rest of the world. This would require the elimination of large and persistent trade deficits, which encouraged currency speculation and caused so much harm internationally. There was also a need to establish specific rules that encourage (or even force) trade surplus nations to accept their responsibilities with regard to the transition economies by directly spending their surplus on products produced by the transition economies, or on foreign investment or on foreign aid.

The problems with international trade in the transition economies reflect the problems associated with the current international financial system in which there is no international lender of last resort willing to stabilize exchange rates. Keynes called for an international central bank under a fixed-exchange-rate system, an international reserve bank being a lender of last resort. The international central bank would have the power to create an international currency and its supply would be determined by future growth needs and potential (Moore, 1979, p. 135). "Such an institution requires, at the very least, powers greater than those granted to the IMF at the Bretton Woods conference" (Arestis and Bain, 1995, p. 166). Keynes insisted on the creation of an International Clearing Union based on a bancor unit of account (Wray, 1996, pp. 141–143). He helped to devise the Bretton Woods Agreement to encourage intervention, fix exchange rates and control of financial capital (Davidson, 1994, p. 252). In this scheme, creditor nations would share the burden of adjustment of the deficit nations and encourage economic development in the international economy (Davidson, 1996, p. 503; Wray, 1996, p. 144).

Thus the Post Keynesians coordination of international trade was essential for transition economies. Even though, the breakup of the Soviet Union and CMEA (Council for Mutual Economic Assistance) resulted in a variety of transition processes, which increased the complexity and the dimensions of the process, there still should be coordination between the ex-CMEA members. "The economies of these states are still so greatly entangled that it is much less costly to gradually change the existing system of the division of labour than to abolish it at once" (Yavlinsky and Braguinsky, 1994, p. 103). For example, intratrade between the republics of the ex-Soviet Union comprised 80 percent of total trade; trade diversion would have been extremely costly and these products would not be able to gain access in the international markets (Williamson, 1992, p. 29; van Brabant, 1991, pp. 75, 81). As well, trade restrictions between transition economies would reduce output magnifying the social cost of transition (Williamson, 1991, p. 11). The trade links between the republics of the ex-Soviet Union were extremely strong due to the fact that they were part of the same country with the same currency and very close to free movement of goods, capital, and people. The same argument cannot be advanced for the trade links between Russia, the republics of the ex-Soviet Union and the Eastern European countries; actually there are considerably different arguments made for the ex-Soviet Union and Eastern European countries. Meanwhile, it can be easily advanced that trade relations were interconnected through a quite rigid structure based on CMEA. As a result, economic links between enterprises in the ex-CMEA members were necessary to some extent to be maintained to avoid the collapse of output and trade.

Williamson (1991, pp. 11–14; 1992, pp. 29–31), van Brabant (1991, pp. 63–95), and Kregel et al. (1992, pp. 102–103) suggested the establishment of a "payments union" between countries trading with transition economies. The European Payments Union (EPU), which was operative from mid-1950 to 1958, was cited as a prototype model for such an organization. In post World War II Europe, the main argument for the EPU was that convertibility of exchange rates would not have been sustainable otherwise, due to import and exports demand curves being inelastic. Permanent current account deficits would have contributed to depreciation and inflexible wages, which would have detracted from international competitiveness. Most European countries were characterized by monetary overhangs and repressed inflation. International financial markets were controlled heavily and exchange for other currencies was only allowed with official permission and in exceptional

circumstances. If convertibility had been initiated immediately, rather than the EPU, incomes would have been reduced.

This was an all too familiar situation with the transition economies. Through a payments union, transition economies would have been able to establish current account convertibility more rapidly between the member states and the rest of the world and avoid large depreciations (Williamson, 1992, p. 30). A payments union would have enabled currency convertibility, intraregional economic collaboration, exploitation of technological improvements, encouraged structural adjustment, reduced social cost, developed rational trade and prices, and prepared the transition economies for participation in international trade. van Brabant (1991, p. 64) argued that "I see such a facility as an indispensable instrument of the reform process." A payments union would have to make available foreign reserves for trade between members of the union and also with the rest of the world. Without the union, the reserves required for international trade would have been five times higher (Williamson, 1992, pp. 29–30). Once foreign reserves were adequate, the payments union would become redundant (Williamson, 1992, p. 30). This would allow the maintenance of current account convertibility and at the same time economize on hard currency.

A payments union is a stage in the gradual transition process necessary to help reduce the social cost and have the aim of creating the preconditions for full European Union membership (van Brabant, 1991, p. 83). In the transition economies, a fixed exchange system was needed to eliminate the instability and negative outcomes caused by the flexible exchange rate system. There would have been no advantage in engaging in export-led growth and exporting inflation. The fixed exchange rate would be allowed to devalue, to reflect inflationary pressures. This international system did not require the financial or fiscal policies to be removed by the sovereign state.

The participation of the mature market economies would have been essential in designing, guaranteeing, and administering a payments union for the transition economies. An Eastern European Payments Union required a set of institutions to monitor compliance and impose penalties, similar to the Organization for Economic Cooperation and Development and the Bank for International Settlement in the 1950s. The financial commitment for the transition economies would have been quite small and subject to financial assistance from mature market economies and international organizations, but without distorting economic incentives (van Brabant, 1991, pp. 91, 94). "It is difficult to think of a more

productive form of aid than endowing a capital fund for an Eastern payments union that could prevent the collapse of inter-republic trade" (Williamson, 1991, p. 14). However, the idea was rejected (Williamson, 1991, p. 12). This was because the international organizations dominated by the free trade ideology were concerned the newly formed republics and Eastern Europe would be too dependent on trade with Russia. In addition, the EPU was associated with extended agreements and institutions, which had the short-term goal of economic union and political union in the long-term in Europe. Russia and Eastern Europe, with the encouragement of mature market economies and international organizations, were moving against these links and the degree of economic and political commonality was rather shallow (van Brabant, 1991, p. 89). Consequently, since the transition economies have achieved convertibility and there was no other goal associated with the EEPU (Eastern European Payments Union), it can be argued that there is no point associated by revisiting the possibility of establishing an EEPU.

However, a Post Keynesian approach would view the establishment of an EEPU as a positive element in the transition process, even though convertibility has been achieved. Post Keynesians were very critical of the temporary nature of the EEPU in establishing convertibility after which it would cease to exist and no other goal justified its existence. A Post Keynesian approach would be in favor of a permanent mechanism for international trade, which offers stability and the development of a civilized society. The payments union should had evolved if established, and there is no reason not to establish it nowadays—into an Eastern European Clearing Union similar to the International Clearing Union suggested by Keynes for the international financial system. An Eastern European Clearing Union is based on an agreement between the participating trading countries whereby, instead of requiring payment from each other in convertible currency, they accept each other's currencies and credit or debit the trade account imbalances into a clearing account. After a set period, the clearing account must be settled or limits are placed on the debit or credit position of the account. Through a clearing union process, a country—which had a surplus trade account with a transition economy—would have had to finance the deficits of other countries by purchasing exports, foreign investment, or foreign aid. It should be pointed out that credits in the payments union are not available, except for very short term. There would have been an increase in export demand as a result of being discriminated in favor of, rather than against. The clearing agency would have the power to enforce the rules when a trade surplus

country did not comply. A tax would be imposed and paid from the accumulated surplus, forcing the trade surplus country to comply. In fact, there "is no natural or national economic law" that prohibits trade surplus nations from financing trade deficits of other nations for as long as they wish, with economic benefits to both countries (Davidson, 1994, pp. 246–247). Surplus nations would be responsible for solving persistent current account deficits, but this does not eliminate all discipline from the deficit-trading partner (Davidson, 1994, pp. 265, 281). However, "this perceived fear of loss of national autonomy, due to joining a cooperative international clearing system, was largely a bogus anxiety as long as the rules were designed to encourage adjustments by increasing aggregate demand to promote global full employment" (Davidson, 1994, p. 249).

Conclusion

If the historical experience of the successful post-war reconstruction of Western Europe approximated the economic conditions of transition economies—which is questionable—the successful policies adopted, then totally contradict those implemented in Russia and Eastern Europe. During the period of reconstruction, price ceilings and subsidies were maintained and economic planning was implemented. Monetary and fiscal reforms and policies were adopted and the EPU was established with the aim of restoring trade among countries. Exchange rates were controlled and capital flows restricted, and the United States provided financial and technical support under the Marshall Plan. Finally, domestic and international markets were influenced and guided by an active state with the aim supporting the initiatives of firms. In contrast, the free trade free market policies initiated by the shock therapy approach was causing deindustrialization (Yavlinsky and Braguinsky, 1994, p. 103). The challenge for transition economies was "to savour the taste of trade without allowing trade to become an all-consuming force that threatens the development of social and economic life within a community" (McClintock, 1996, p. 225).

The Post Keynesian transition model recommended an adaptive strategy that combined open but managed trade with government expenditure adjustment programs. "A fixed exchange rate regime operating in tandem with intelligent internal demand and incomes management policies will create an environment where all nations simultaneously can be winners and economic growth increases globally without any nation necessarily running into a balance of payments constraint" (Davidson,

1994, p. 256). Economic policy coordination between transition economies has therefore become a necessary condition for achieving sustained economic prosperity in the new globalized economic environment and the best way of achieving it is by establishing the Eastern European Clearing Union. A concurrent generalized expansion of income across transition countries through a coordinated approach might help mitigate the problems of trade deficits and capital flight driven by international differences in inflation and interest rates. This would enable transition countries to stay on an expansionary course. In the absence of such coordination, the adverse policy incentives that promote the macroeconomics of austerity and lowering of the wage floor will inevitably assert themselves (Palley, 1998, p. 352).

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