

# Labor Unions and their Role in the Political Economy of Nations

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## Abstract

*We are all aware of the existence of labor unions as part of the socioeconomic structure and the political economy of nations. However, many of us are sometimes confused between whether there exists a need for labor unions especially in the context of the routine bad press they receive as obstacles to progress and economic growth of nations. Indeed, in recent years, thanks to the dominance of the neoliberal policies pursued in the West and beginning to spread across the globe, it is common for capitalists and the media alike to paint the functioning of labor unions in a negative light. However, this was not always the case and there was a time when labor unions were looked upon as necessary and even vital bodies for the healthy functioning of democracy and capitalism.*

*Keywords: Labor Unions, Political Economy of Nations*

## 1.0 INTRODUCTION

To start with, in the early days of the industrial revolution, working conditions, pay, wages, and other aspects were abysmal for workers and labor and it was often the case that they were at the mercy of the owner or the capitalist who hired them. Indeed, in the immediate aftermath of the Industrial revolution, there was a need for the workers to organize themselves and form a body that would negotiate on their behalf and barraging for the collective good which is what the term collective bargaining signifies. This gave birth to the early labor unions whose mandate was limited and whose function was to liaise between the owners and the workers so that both benefit from the interaction.

### 1.1 The Emergence of Labor Unions

Gradually with the introduction of mass production and the rise of the Industrial corporation as an entity that was taking over the economies of the Western world, there was a pressing need for the voices of the workers to be heard as when compared to the beginnings of the industrial revolution, the situation now was somewhat better and yet left a lot to be desired especially when one takes into account the need for job security, family benefits, healthcare, social security, and working hours as well as paid and unpaid leaves. This gave birth to the modern incarnation of the labor unions in the United States and Europe and indeed, in most parts of the developing world as they industrialized and where the need for workers' rights was being felt. This is the genesis of the labor union movement between the Two World Wars which witnessed an explosive growth in both the industrial corporations and the membership in the labor unions.

### 1.2 Workers' Paradise

Indeed, it was during this time and in the immediate aftermath of the Second World War that important victories for workers in terms of assured employment, hiring and firing without leaving the workers in the lurch, contributions to their pension funds from the employers, provision of healthcare benefits to them and their families, and reasonable working hours as well as safe and secure working conditions. This period was marked by a relative peace between the unions and the management as the prevailing all round prosperity in the West ensured that both sides were able to agree on most contentious issues and wherever they could not reach a meeting ground, they agreed to disagree. This phase which lasted between 1950 to the early and mid-1960s provided the workers with a sense of security and stability and they basked in the assurance that the unions would represent them in disputes with management.

### 1.3 The Dwindling Power of Unions

However, as the tumultuous 1960s which for the first time, resulted in the introduction of neoliberal policies gave way to the 1970s, the managements under the influence of the neoliberal

capitalists as well as the architects of globalization proposed that labor unions were like relics and that businesses ought to concentrate and focus fully on making profits whereby even the workers benefited because of the expansion of the pie. The beauty of this argument was that even the unions felt it hard to resist as the workers were being offered the chance to participate in growth beyond the normal which would also benefit them though the other point that they had to give up their rights certainly did not resonate with them.

#### 1.4 The Advent of Neoliberal Thought, Globalization, and the Demise of the Unions

Thus was born a long period of strife between the unions and the management which continues to this day as the Western neoliberals first dismantled the socioeconomic structures where the unions were key players, then outsourced manufacturing and later services to China, India, and other developing nations thereby ensuring that the western blue collar worker was redundant, and most importantly, ensured that financial services and other forms of services based firms replaced manufacturing as the backbone of the Western economies.

## 2.0 THE HRM IMPLICATIONS OF THE DECLINE IN THE POWER OF UNIONS AND ORGANIZED LABOR

### 2.1 Decline of Unions and Collective Bargaining Power

It is a fact that the labor unions and organized labor have witnessed a decline in their power since the 1970s which was the height of their ability to wrangle concessions from employers. Concomitant with the emergence of globalization and the rise of offshoring of manufacturing jobs to China and other countries, membership in the unions dwindled to the extent that unions in the present United States have little or no power to bargain in favor of the workers. In addition, with automation has taken away some of the jobs that were retained in the United States, workers now have little power regarding collective bargaining and fighting for their rights. While the capitalist and neoliberal establishment sees this as a positive trend given the animosity that existed between the Unions and the Employers in the aftermath of the Second World War and which continued well into the 1960s, the Human Resource Management implications are many considering the fact that workers without rights are indeed a dangerous lot and hence, can lead to further demoralization of the workforce.

Indeed, Industrial Relations and Personnel Management theories which are the precursor of the present HRM theories have always insisted that there must exist a healthy balance between the employers and the workers to ensure optimal utilization of the workers and to ensure that they lead lives of dignity and fulfillment.

### 2.2 It is in the Interests of Employers to have Workers as Consumers

For instance, even the celebrated Henry Ford, the legendary owner of Ford Motors who introduced the assembly line and the trend of mass production, was known to favor a decent wage for the workers since after all, they had to have purchasing power to buy and consume the goods and services that the capitalist and consumerist system produced. In other words, while the profits might go up to the employers with workers being paid lower wages and asked to do more, the fact remains that unless such workers are also able to participate in the consumer economy, the resultant system would have the wealthy and the rich producing and consuming its own goods and services.

### 2.3 HRM Implications of the Decline in the Power of the Unions

Further, HRM theory too states that to create an engaged and motivated workforce, the workers need to have their rights upheld. Consider a situation where the workers demand higher wages, and they are denied such allowances. This would result in a situation where workers can protest and turn volatile threatening the peace and the very fabric of the organization. Indeed, this is what has happened in the case of the Incident in the Suzuki plant in India where workers denied rights and asked to toil led to them resorting to violence against the managers and others leading to deaths and destruction of property. People are not advocating that violence would bring back the rights of the workers. After all, the reason why employers cracked down on the unions in the 1970s and 80s was precisely because the unions were often resorting to strikes and violence against the factories and establishments. Rather, what we are saying is that from an HRM perspective, there needs to be a situation where collective bargaining and

discussions ought to be the norm so that each side understands what the other wants and hence, with mediation and arbitration, they can reach a common meeting point. In other words, unless there is an engaged workforce that has its rights recognized, its duties and obligations towards the employers would suffer.

#### 2.4 The Rise of the Uber Economy

While one can argue that organized labor is redundant in times of the Gig Economy where firms such as Uber employ freelancers and part-timers without any unionization, the recent cases of Uber drivers striking in several cities and parts of the world is proof that sooner or later, even such New Work arrangements have to accommodate some sort of unionization and collective bargaining. The IT (Information Technology) and Software industry were touted as the sunrise sector where workers are fully engaged and fulfilled and used to justify the absence of unions among them as a sign that the world has moved on from unionization and other relics of the manufacturing era. However, as can be seen from the case studies of Silicon Valley firms and in some Indian companies, the fact that mass layoffs and downsizing led to protests and threat of legal action underscores the dangers that workers without a union to represent the present.

#### 2.5 A Possible HRM Solution

In other words, if workers do not have a voice, the HRM implications are that sooner or later, the situation becomes untenable and can lead to unpleasant and ugly scenarios. As has been argued throughout this article, the HRM practitioners often find themselves in a dilemma on the optimal power that unions should exercise. Thus, a good approach would be to let the workers form a union and then designate representatives from the union to bargain on their behalf. While this was the norm in earlier decades, the rise of militant unionism put paid to it due to overreach on the part of the unions.

### 3.0 THE CASE AGAINST LABOR UNIONS

It is a common belief amongst the general population that labor unions work in the interest of the laborers. In fact, they believe that the power that collective bargaining gives these workers is probably the only thing that prevents their exploitation at the hands of greedy corporations. They had all heard about the history of subsistence wages, long work hours and also inhuman working conditions that were the norm when robber barons made their money. However, that is not the case. When one pays close attention to what the labor unions do, it becomes clear that these organizations do not work in the interest of the workers. Instead, they work against their interests.

#### 3.1 Unions Act as Monopoly

Workers do not have a choice to democratically elect their union. When they join an organization, there is only one union in that company. Workers, therefore have to become a part of that union. Not choosing a union or choosing a different union are not options that the workers are given! Hence unions end up acting as a monopoly. Since they have no competition, they can collect any amount they want in the name of dues. Also, since labor unions are a monopoly, they have been used by several corrupt businessmen to avoid conflict. They help elect a union leader who is sympathetic to their interests. Since laborers do not have a choice, they have to follow what the union says even if it is against their interest in the short term.

#### 3.2 Unions Cause Inflation

Even if the unions are not corrupt, they tend to cause negative effects. For instance, they are almost single-handedly responsible for causing price inflation. They tend to negotiate for unreasonably high wages even though there is no corresponding increase in productivity. Since this is happening throughout the economy, the government is forced to print money. As a result, the higher wages received by the workers are worthless since the real prices have risen and as a result, the real wages have fallen. The unions might think that they are helping workers by forcibly raising wages. However, in reality, they are only causing inflation.

### 3.3 Unions Cause Layoffs

Most products sell in a competitive market. This means that the companies face competition from local as well as international suppliers. They cannot pass on the price rise caused by higher labor costs to the customers. As a result, they have to get rid of laborers and bring down their costs. Most of the times, companies prefer to go for mechanization and automation. Machines tend to be slightly cheaper than humans (because of artificial wage inflation caused by the unions). Lower end jobs such as cleaning, janitorial and clerical work have been fully automated. The basic reason behind this automation is that companies are tired of dealing with labor unions and their unreasonable demands. They would instead pay the workers a severance and then continue their operations with the help of machines that do not cause any disruption.

### 3.4 Unions Cause Bankruptcy

The automobile industry is one of the most significant examples of how labor unions have practically destroyed the American workforce. The automobile industry was practically born in America. Companies like Ford, General Motors, and the others first set up shop in this nation. America still has the largest consumer base in the world when it comes to automobiles. However, the companies are close to bankruptcy and had to be bailed out by the taxpayers. This is because the labor costs have risen so much that car production has become extremely expensive in the United States. It is much cheaper to manufacture car thousands of miles away and then transport it, rather than make the car right there! The automobile industry faces price increase from all sides. Even workers in steel and rubber industries (which act as input for vehicles) are unionized. This raises the cost of production in America whereas it is cheaper to produce in other nations. This is the reason why countries like Japan were able to flood the American markets and become the dominant players.

### 3.5 Unions Cause Outsourcing

By the 1990's, almost all industries in the nation were tired of the oppressive tactics used by labor unions. Labor unions were never interested in win-win situations. Instead, they were interested in gaining at the expense of others. This is the reason that fiber optic cables changed the world! When it became possible to work from remote locations, companies queued up to outsource their work. Outsourcing was extremely cheap because of two reasons. Firstly, there were differences in the currency rates of two countries. This made one country's money more valuable in another country. However, the main reason was that the third world countries did not have labor unions to raise prices. Hence, outsourcing became a proposition that was too good to refuse. The irrational raising of wages ended with millions of people losing their jobs as corporations found viable alternatives at offshore locations! To sum it up, labor unions do the exact opposite of what they are supposed to do. Instead of protecting the worker's interest, they end up harming them.

## 4.0 UNIONS IN THE IT/BPO SECTOR AND IN THE FREELANCE ECONOMY

### 4.1 Who are Blue Collar and White Collar Workers?

Traditionally, it was thought that unions were allowed and recognized in the manufacturing sector for those workers who worked on the shop floor or in other non-managerial and non-executive functions. These jobs were called Blue Collar jobs as it was the norm for many manufacturing units and other factories and plants to require the workers to wear Blue Uniforms to work. On the other hand, managers and other employees came to work in their usual or White Shirts and hence, were called White Collar workers. Though this is a historical classification that was not followed for quite some time now, the terms stuck and indeed, is useful even now to conceptualize what it means to be a worker and a manager or executive. In this context, it was believed that Blue Collar workers could be part of unions whereas White Collar employees who typically were better paid and had graduate and other degrees were thought to belong to the elite and hence, need not be unionized. This practice continues to this day wherein the rank and file employees in many sectors are unionized whereas the managerial and executive elite is not part of any unions.

#### 4.2 Is Unionization Necessary in the IT/BPO Sector and the Freelance Economy?

This brings us to the point where we have to talk about the Services Sector comprising the Information Technology, Software, Business Process Outsourcers, and Financial Services among others that do not have any unions at all, including for the rank and file employees. The rationale for this was the understanding that even the junior most employees in these firms performed Knowledge Work or for that matter, was better paid in comparison to manufacturing firms as well as were White Collared meaning that there was no need for these employees to be part of unions. Since collective bargaining was unheard of in the IT/BPO/Fin services sector as almost all positions in the hierarchy were well compensated as well as protections offered to them in terms of healthcare benefits, social security contributions, as well as bonuses based on performance, it was felt that unionization would not result in any tangible gains in these firms.

Further, the fact that unionization was incompatible with these firms was accepted as all the employees in these firms were part of the New Digital Economy that was heralded to usher in a new era in the way work was performed. Continuing in the same vein, the emerging Freelance Economy or the Gig Economy comprising firms such as Uber, Lyft, Upwork, Task Rabbit, and other app-based as well as temp jobs aggregating firms was again heralded as a “revolution” in the way work was done. Thus, it was also felt that there was no need for unions to represent the freelancers since they could set their own hours and choose their employers in addition to being dispersed which meant that it was not feasible neither from the point of view of organizing them nor in the practical aspects of them not being workers in the first place. In other words, the reasoning was that the freelancers did not enjoy the protections that were offered to the workers in other sectors since to start with, they did not fit the description of workers.

#### 4.3 Some Recent Developments

While these rationalizations might work in some contexts, two recent decisions by the courts in the US, UK, and India have set the ball rolling for the unionization of both the service economy and the gig economy. First, Uber lost a case in the UK where the courts ordered it to start treating its drivers as workers thereby offering them the protections that are given to unionized workers. Second, the formation of a union of the IT/BPO employees and its subsequent recognition as a legitimate union in the IT Hub of Bangalore means that for the first time, these employees would have the option of joining such unions. The impetus for these developments was the specter of mass layoffs in case of the IT/BPO firms and the denial of basic protections that Uber and other Gig Economy firms were indulging in for their freelancers. While these are still early days for us to conclude that unionization would become the norm, nonetheless, these are important developments of note to all stakeholders in these sectors to pay heed to the emerging problems of the rank and file employees and the freelancers who are being made to work without any benefits and are being treated worse than during the times of the Industrial Revolution that was the first instance of organized workers rising against what they perceived as unfair terms of work and subhuman working conditions.

#### 4.4 Bonuses and their Evolution over Time

In the initial decades of the 20th century when the modern corporation began to take shape, employees were paid the salaries in the form of wages, overtime, and festival bonuses. The pioneering companies such as General Motors under its iconic leader, Henry Ford, were of the view that employees had to be paid salaries that would ensure that they had the money to spend on consumer goods. With the gradual evolution of the corporation, owners and capitalists decided that in addition to the basic salaries, employees would have to be paid bonuses depending on their performance. Whereas the initial emphasis was on bonuses during Christmas and which were the same for all employees, the later decades witnessed the first and the early forms of linking bonuses to performance and thus, the advent of the concept of variable pay. The difference between variable pay and straight pay is that the latter is paid according to the rank and the designation of the employee whereas the former is paid according to his or her performance over the period for which it is being paid.

#### 4.5 The Rise of the Services Sector and Variable Pay

Before proceeding further into the discussion, it would be worthwhile to note as long as the manufacturing sector was the predominant part of the economy, wages were more or less uniform for each designation and only the bonus was different and that too by not much. This was because the work was manual and mechanical in nature which meant that even the best performing employees could manage marginal increase in productivity compared to those on the lower end of the performance scale. However, once the service sector arose in prominence and the knowledge worker gained traction with the advent of the IT (Information Technology), Financial Services, Call Centers, and other service based industries, employees began to innovate along with the organizations and hence, some employees mastered their jobs better than the others as well as were more inventive. Further, with marketing becoming prominent, it was felt necessary that a percentage of the sales generated ought to be given to them as incentives. Thus began the concept of variable pay in addition to the basic pay and other benefits.

#### 4.6 What is Variable Pay and what are the Components of Variable Pay?

Variable pay as it is practiced now has several components and they include pay linked to individual performance, pay linked to team performance, pay linked to group performance, and pay linked to organizational performance. In addition, some investment banks also link variable pay to the volume and the amount of money generated in trades and deals. Turning to how variable pay works in practice, organizations such as Infosys have variable pay structures that are dependent on the individual performance of the employee which is similar to the traditional definition of bonuses. However, another component of variable pay is dependent on team and group performance which means that there are more incentives for collaboration and contributions to the team and group as a whole. Further, variable pay is also linked to organizational performance which means that if the organization performs well and is in a position to make profits and pay dividends, some of the benefits are passed on to the employees as well.

#### 4.7 Employee Stock Options

Turning to the concept of ESOPs or Employee Stock Options that are included in variable pay, some organizations across verticals and industries provide stock in the companies to their better performers. In addition to being an incentive to work well as well as contribute to the organizational progress, these stock options also make employees stick to the companies in a symbiotic manner wherein as the individual employee and the organization together perform well, the former gets more ESOPs and the latter is assured of loyalty from the better performing employees. Indeed, the attraction of ESOPs is so alluring that many employees often pick the companies in which they want to work depending on whether the particular company has provisions for stock options.

#### 4.8 Traditional Workplace Time Requirements

Ever since the modern corporation evolved into its present form, it has become the norm for employers to “clock” the number of hours worked by their employees so that they can keep track of the work done as well as ensure attendance for the prescribed working hours. Indeed, the tracking and monitoring of time spent at work is so pervasive that worldwide there are rules and regulations mandating the minimum number of hours that employees ought to work in terms of Seven Hour workdays in France, Eight Hour workdays in the United States and Ten Hour Workdays in Singapore. These requirements ensure that employees spend that much time in the office whether they are productive all throughout the day or not. This means that the emphasis is on spending time at work rather and which in some cases leads to the possibility wherein Murphy’s Law of “work expands to fill the time available to do it” comes into play. In other words, by insisting on physical attendance of the employees during the working hours, employers are also taking the risk of lesser productivity as well as contributing to “Rush Hour” commuting gridlocks and more energy consumption.

#### 4.9 Results Only Work Environment

Enter the concept of ROWE or Results Only Work Environment which is pioneering in its emphasis on measuring outcomes and results of the employees instead of measuring the number of hours worked by the employees. This concept pioneered by Cali Ressler and Jody Thompson places the results achieved by an employee irrespective of the number of hours he or she has spent on the task and mandates that employers must pay employees for the output rather than the number of hours worked on the task. In this paradigm, if employees finish their work quickly, they have the option of either taking on new tasks or simply relaxing at work or in their homes. On the other hand, if employees take longer to complete the task, they have to ensure that they ramp up their productivity in order to not lose out on more tasks. Of course, one might very well ask whether this would lead to increased competition between productive and unproductive employees wherein the latter lose out in the “race to the bottom” and the “survival of the fittest”. Therefore, the creators of this concept have clarified that in manufacturing industries where a fixed output is expected of the employees, the ROWE works best by ensuring that workers become more productive in the available time.

#### 4.10 Benefits of ROWE to Employees

In other words, ROWE is as much about increased productivity as it is about reducing the load and the burden on employees by insisting that they spend a minimum number of hours at the workplace. It can be said that concepts such as telecommuting, work from home, and remote working are all related to the ROWE since the common thread running through them is the emphasis on results rather than the number of hours worked by the employees. Indeed, research has found that ROWE has direct benefits in terms of increasing productivity and indirect benefits of ensuring that employees spend more time with their families and friends. Indeed, as this type of flexible working hour's results in employees refreshing and rejuvenating themselves, it is possible that their productivity would increase thus perpetuating a “positive loop” where each element reinforces the other.

#### 4.11 Benefits of ROWE to Employers

Apart from this, ROWE ensures that managers become coaches wherein they hold their employees accountable for the results and in the process ensuring more accountability at all levels of the organizational hierarchy. This also has the benefit of attracting and retaining top talent who are motivated by the prospect of being rewarded for their productivity and are not demoralized since they are contented and happy being acknowledged for the results that they have achieved and not merely the number of hours worked. As can be seen from the discussion so far, ROWE has mainly come about due to the increased flexibility and adaptability that is required from the employees in the changing nature of work and with the advent of the sharing economy and the digital economy. Indeed, concepts such as ROWE were always around when the era of manufacturing was in full swing. However, what is different now and which explains the greater interest in these paradigms is that more and more employers and policymakers have realized the importance of flexible working hours, telecommuting, work from home, and the rise of the freelance or the gig economy.

Moreover, with more women in the workforce, it is also the case that employers are realizing the need for work life balance for both men and women and maternal leave and flexible working for women in particular. Apart from this, the communications revolution has made possible these options and paradigms and this is also a driver of ROWE.

#### 5.0 CONCLUSION

To summarize the points made so far, one can understand how the characterizations of labor unions as important stakeholders of society soon gave way to them being shown in a negative light. Indeed, the fact that neoliberal policies enthralled the entire world is the primary factor behind the dwindling union memberships, their importance, and more importantly, the demise of the blue collar worker in the West. The final nail in the coffin of the labor unions was in the first decade of this century wherein the culmination of the long drawn out strategy to decimate unions was the global economic crisis of 2008.

Thus, the concluding point in this article is that both sides need to realize that they have to coexist with each other and work towards mutual benefit rather than holding grudges and grouses against each other. In this respect, the HRM personnel have their task cut out as they must take the lead in convincing the management to allow unions and at the same time, convince workers that they too must cooperate so that win-win situation results.

It is also the case that these sectors do not lend themselves to unionization for various reasons.

As mentioned at the beginning of this article, the key point to note is that employees in the services economy and freelancers in the gig economy are not exactly Blue Collar workers. Moreover, when there is no concept of organized labor in the services and gig economies, then unionization might yield only marginal returns. To conclude, the fact that the concerns of the employees and the freelancers must be taken into account means that there is a need for the service sector and gig economy firms to negotiate with the regulators and the employees as well as with other stakeholders to first define the categorizations and classifications so that there is a starting point for further progress on how best the Social Contract in these firms between the employees and the employers can be made.

The human resource managerial rationale for variable pay is that it acts as a motivator and an enabler of stellar performance by the employees. In addition, the incentive to be a team player, to put the interests of the organization before that of the self, and the fact that competitive grading would ensure that the better performers are rewarded and the poor performers punished in terms of grading as well as pay are all cited by HR experts as being the underlying factors for variable pay.

Finally, whether employers adopt ROWE or not, it is clear that it would be present in some form or the other since outcomes or results based payment is always a guarantor of increased productivity and enhanced motivation. However, as pointed out earlier, this should not become a race to the bottom or lead to the survival of the fittest and hence, our view in this article is that much depends on how it is implemented and how it is monitored in addition to how the benefits accrue to different stakeholders. In conclusion, the future of work portends a shift away from the second wave industrialization and information technology to the third wave mobile and digitalization and ROWE must be seen in this context

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