Economics books

Do we need a new kind of economics?

For critics, the discipline is beset by flawed models, obscure jargon and undeclared ideology — but it doesn't have to be that way

FT Books Essay

Economics students at the University of Leipzig © Alamy

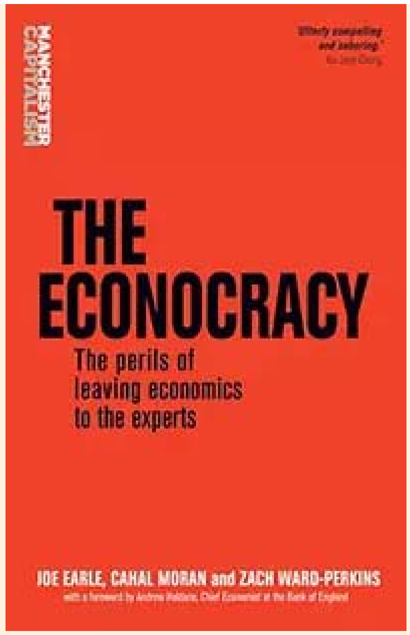
11 HOURS AGO by: **Martin Sandbu**

The widespread public suspicion of economics and economists should be obvious to anyone who cares to notice. It is a disenchantment captured well in the opening pages of *The Econocracy*: "The authors of this book are of the generation that came of age in the maelstrom of the 2008 global financial crisis . . . We felt that to understand and shape the world we needed to speak [economists'] language . . . [but] we are all keenly aware that our economics education has not equipped us with the knowledge or skills to justify any authority we are given."

The authors — Joe Earle, Cahal Moran and Zach Ward-Perkins — are the founders of a campaign to reform economics education (http://next.ft.com/content/0dc9b416-8573-11e6-8897-2359a58ac7a5), which began at Manchester University but has seen sister campaigns pop up around the UK and beyond. They chose to study economics as a personal response to the shock of the crisis, in the entirely reasonable expectation that an economics degree would help them understand how it happened and how another crisis, and other problems in the economy, could be avoided with better policies. They should be the dream students of a discipline that likes to have influence in the world. If economics cannot make itself seem relevant even to them, it has a problem. At some level, the profession is not living up to what we are entitled to demand of it.

But what exactly we are entitled to demand, and how exactly economics falls short of that ideal, is harder to pin down. Like Walt Whitman, *The Econocracy* contains multitudes. Earle, Moran and Ward-Perkins sometimes attack the influence economists have on policymaking, which they see as unjustified by the knowledge the discipline can legitimately claim to possess. They also criticise how the language economists use cuts non-economists off from the debate (hence the title). At other times, the authors take aim at the way economics is taught and call for methodological pluralism: they want to be exposed to alternatives to the standard neoclassical approach.

It is easy to sympathise with the tales they recount of teaching unconnected to real economic challenges — I have felt that frustration myself. It is also clearly true that economists have a privileged role in policymaking, though the disdain for experts revealed during the Brexit referendum campaign suggests that their authority may not stretch very far with the public. But the book's central indictment seems to focus on *what* is being taught in economics, not just *how* it is taught or communicated. Ultimately, the authors pin the blame on the standard method for analysing the economy — the "neoclassical" perspective that is ubiquitous in economics courses, the financial industry and policy analysis.



The Econocracy correctly identifies the overarching methodological elements of neoclassical economics: individualism, maximising behaviour and "equilibrium". Mainstream economics aims to account for economic phenomena as the result of individual choices; it assumes that individuals in some sense aim to do the best they can, maximising their "utility", and that the economy comes to rest in an equilibrium that balances these individual desires. All this may very well have led to blind spots — such as the failure to see that banks would misjudge the risks they took, or to imagine that a financial panic could suddenly turn a stable state of affairs on its head.

But there is little in the book of the big debate going on in macroeconomics about how important individualist "microfoundations" are, and what the alternatives could be. Nor is much attention paid to the huge research efforts under way in behavioural economics. This sub-field also models the economy as an equilibrium combination of individual choices, but allows that people have limited rationality and willpower. As for equilibrium, game theory has been exploring how economic interactions can create unstable situations since the 1950s.

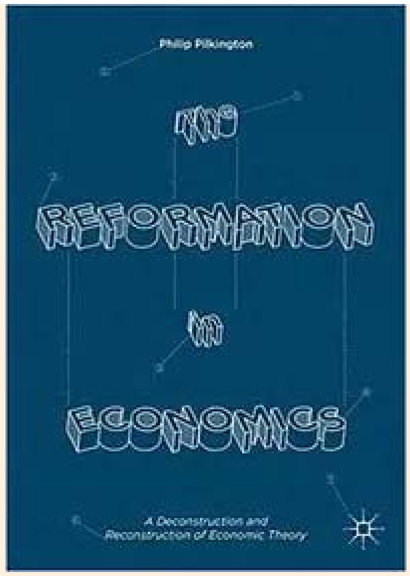
If a standard undergraduate economics education keeps these parts of economics away from students' view, no wonder they come away disenchanted. But how is this a problem with neoclassical economics, and how is it solved by the methodological pluralism *The Econocracy* calls for? The authors seem to mean giving non-neoclassical (or "heterodox") approaches equal billing. But take, for example, feminist economics or institutional economics: both gender relations and the influence of institutions can be and are often analysed with perfectly conventional economic modelling.

> The problems have as much to do with the sociology of the economics profession as with economics itself

The student dissidents behind *The Econocracy* are not the only critics of mainstream economics. Philip Pilkington's *The Reformation in Economics* is angrier and ploughs a deeper but less persuasive furrow. Pilkington, an economist and investment analyst, says conventional teaching methods "have an aura of brainwashing to them . . . exercises in ideological training". He usefully revisits forgotten writers from the history of economic thought but insists a little too rashly that they alone were right and the entire direction the field took instead was misguided. He correctly points out the dangers of mathematising economic argument — but somewhat undermines his point by introducing equations of his own.

The nagging feeling both books leave me with is that they conflate the method and the messenger, treating the (real) problems of obfuscating economics training as a necessary consequence of neoclassical methodology. It brought to mind a postgraduate-level class in international trade theory I took at Harvard. This was taught by Dani Rodrik, known as a sceptical voice in the globalisation debate and a hero of the young leftists demonstrating on the streets of Seattle, Genoa and Quebec City. Rodrik started the first lesson by making clear that students should not expect a critique of economic methodology. His work, Rodrik explained, and the theory he would teach, used the standard tools of neoclassical economics: equilibrium states of individuals' maximising choices would be the order of the day.

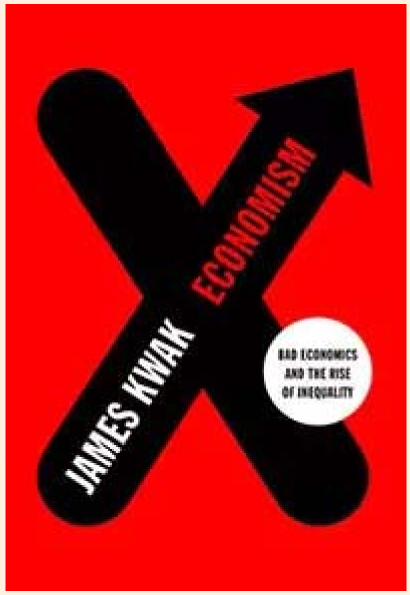
One could almost physically sense the deflation of a lot of the students in attendance, who had evidently hoped to be initiated in the tactics of intellectual insurgency against a hegemonic ideology. But the lesson here is that in a sense, they were: Rodrik's well-known scepticism about some of the tenets of "neoliberalism" is all cogently argued with standard theory.



So perhaps it is not neoclassical economics that is at fault, but neoclassical economics badly done? That is the thesis of *Economism: Bad Economics and the Rise of Inequality* by James Kwak, a law professor, historian and economics blogger. "Economism" is his label for the simplistic application of the most basic supply-and-demand models taught in introductory economic courses (others call it "Economics 101-ism"), committed by those who never bothered to study the subject in more depth.

Kwak's book is didactic in the best possible way, and it proves beyond doubt how dangerous a little knowledge can be. He starts by documenting the enormous influence of primitive notions of economics on US law and politics. Kwak describes a generations-long campaign by businesses and think-tanks to convert future leaders to a simple and highly libertarian version of economics. This has enjoyed considerable success: Robert Bork, the senior judge, and Jeb Hensarling, the current chair of the US House of Representatives Financial Services Committee, are quoted as experiencing their first acquaintance with economics as an epiphany that would inspire their entire careers. Kwak then devotes a chapter each to a number of important policy areas, in which he shows how bad but superficially persuasive economic arguments are marshalled in support of laissez-faire policies — against progressive taxation, minimum wages, financial regulation and publicly provided healthcare.

Had Earle, Moran and Ward-Perkins been assigned *Economism* as a required supplement to their undergraduate textbooks, I venture that they would have had a very different experience of economics education. And that would not have involved straying one inch from neoclassical methodology; indeed, they would have been hewing more closely to its proper practice. Economics lecturers, take note: include Kwak's book on your syllabus and set aside ample time to discuss its arguments in class.



Kwak channels Rodrik, who has consistently insisted that neoclassical economics includes many models not one, and that the art of economic analysis involves making judgments about which model applies to the situation at hand. Training that judgment undoubtedly requires knowledge of the world, a sensitivity to local conditions and history, and critical reasoning about whether the assumptions and implications of a model sufficiently fit the particularities of that reality. Economics education, especially as *The Econocracy* surveys it, often falls far short of this. But this is not always because of neoclassical economics.

Take inequality, one example given by Earle, Moran and Ward-Perkins of an area where neoclassical models are falling short. Noting the indifference that Robert Lucas and Martin Feldstein, two prominent US economists, expressed about distributive questions, they blame the intellectual monoculture of the profession rather than the particular politics of those researchers: "The monopoly of a single perspective is so ingrained that these economists were not willing to even *consider* distribution as an important economic problem."

But what, then, would they say about Tony Atkinson (http://next.ft.com/content/bc195972-d366-11e6-b06b-680c49b4b4c0), the late British economist who was a giant in inequality studies? There is nothing in his methodology that is alien to neoclassical economics — the survey methods he pioneered as well as his theoretical contributions to defining types of inequality could hardly be more highly regarded. (Atkinson missed out on a Nobel but there is no shortage of neoclassical economists who think he deserved one.) And what would they make of Kenneth Arrow (http://next.ft.com/content/0cb9f868-f8e8-11e6-bd4e-68d53499ed71), the father of neoclassical general equilibrium theory, who called "the idea that the market could solve all problems . . . patently false on thoroughly sound neoclassical arguments"?

I do not want to let economics off the hook too easily — what we may call "actually existing neoclassical economics" certainly has its blind spots and dead ends. It is correct, for example, that modelling the macroeconomy as an aggregate of identical "representative agents" obscures the role of income distribution. But that is being rectified, with important research happening that explicitly incorporates income and wealth differences in examining the effects of monetary and financial policy.

What all this suggests is that the problems have as much to do with the sociology of the economics profession as with economics itself. Neoclassical economics is more malleable and gives less certainty than is often claimed — and when it looks like mainstream economics imparts a political bias to its practitioners, it may rather be the other way round: economists' own values affect the sort of economics they produce.

I also studied economics during a financial crisis, as an undergraduate at Oxford when one Asian currency after another collapsed in 1997. But I had a very different experience than that recounted by this generation of student dissidents. The events of that crisis were constantly brought up in lectures and tutorials, and the theory taught used to make sense of them.

Was I lucky? Perhaps my experience owed something to the fact that I happened to take the international economics modules just as the crisis was unfolding. Perhaps Oxford's system of small-group, discussion-based teaching opened up greater opportunities for critiquing the models. Perhaps it was the practice of not awarding pure economics degrees at the undergraduate level but only together with other subjects, including the ever-popular Philosophy, Politics and Economics degree.

When this combination of subjects works at its best, it creates both better economists and more economically aware non-economists. And that reflects one common criticism of the profession that remains entirely valid. Mainstream economics is not fatally flawed — but would achieve much more of its potential by questioning itself and listening to other fields.

The Econocracy (https://www.amazon.co.uk/gp/product/152611013X/ref=as_li_qf_sp_asin_il_tl?ie=UTF8&camp=1634&creative=6738&creativeASIN=152611013X&linkCode=as2&tag=finantimes-21): The Perils of Leaving Economics to the Experts, by Joe Earle, Cahal Moran and Zach Ward-Perkins, *Manchester University Press, RRP£9.99/$22.95, 232 pages*

The Reformation in Economics (https://www.amazon.co.uk/gp/product/3319407562/ref=as_li_qf_sp_asin_il_tl?ie=UTF8&camp=1634&creative=6738&creativeASIN=3319407562&linkCode=as2&tag=finantimes-21): A Deconstruction and Reconstruction of Economic Theory, by Philip Pilkington, *Palgrave Macmillan, RRP£22.50/$39.99, 386 pages*

Economism (https://www.amazon.co.uk/gp/product/1101871199/ref=as_li_qf_sp_asin_il_tl?ie=UTF8&camp=1634&creative=6738&creativeASIN=1101871199&linkCode=as2&tag=finantimes-21): Bad Economics and the Rise of Inequality, by James Kwak, *Pantheon, RRP$25.95, 256 pages*

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