

## Whither economics? What do we tell the students?

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It is commonplace knowledge that the profession known as economics is in a state of disarray. There are fractures opening up between schools of thought, and lines being drawn between various camps, that make some of the tussles of the past look benign. There is a war going on. Standing, as I do, on the outside of academia, but once having held the title of “Chief Economist”, I look on with a mix of horror, concern, and fear. I wonder what the outcome will be, and I wonder whether economists have forgotten along the way that they are not just working in the field, but are custodians of it as well.

I think economics is a public good in the sense that society as a whole relies upon the expertise and advice of professional economists. They own it just as much as we do. The last few months are testimony to the vital part the profession plays in society’s day to day living. We owe it to society to get it right. Or we should simply shut up and go away. We should not be throwing bricks at each other in the full view of the very people whose livelihoods might be deeply affected by the advice we give.

It must be extremely difficult for a newly fired worker to hear an economist opine that unemployment is ‘all voluntary’. I find it difficult too, even though I am aware of the basis upon which it could be made. Worse still is the thought that such a statement could be made by a professor who enjoys the benefits of tenure. There is an ethical problem involved in the advocacy of flexible wages coming from the mouth of an inflexibly paid economist. Or, at least, there appears to be.

I hope not.

Having said that, I don’t see a way to avoid the conflict. It has been brewing for years. The search to make economics a science and to shed the phrase ‘political economy’ has been a long and arduous one. Clearly it is not over. Economics remains a social science, and that word ‘social’ carries a lot of weight.

At its root economics seems to have a problem deciding what it is about. There are at least two camps, and I think Mankiw’s 2006 article illustrates the issue. He suggests that there are two kinds of economists: engineers and scientists, with the former being concerned more with real world problems and the latter being more concerned with theoretical exposition and investigation.

I disagree. I do not believe that dealing with the real world automatically implies a lack of interest in theory. On the contrary, scattered across the domain of real world economics are plenty of theories. The rich variety of these theories may not have a common core or even coherence, in the same way that orthodox neoclassicism has, but they all share an ambition to integrate economics into the structure of the world about us. This gives them their real world properties. In my opinion it imbues them with a heightened relevance and a great potential to provide society with the value expected of economics in general.

If I have a criticism of the real world theorists it is that they have not worked hard enough to find that coherence. This leaves them constantly vulnerable to attack as being ‘bit’

players in the larger game of theorizing. They are seen as filling niches rather than building a rival to orthodoxy. This may allow them to survive and pursue their own interests, but it does not accumulate into an integrated field.

The history of the 'real world' movement supports my view. In its current form it began back in 2000 with a rebellion by students. They were concerned that they were being taught an increasingly irrelevant system of thought that left the real world outside virtually undiscussed. Since then the dialog has grown and has undoubtedly contributed to the current disarray. An example of this expansion is this journal that now is over fifty editions strong and has a readership of about 11,500. Obviously there is great interest within the profession about real world economics.

But there is still no coherence. This is to be expected after only ten years, but it is not acceptable over a longer period. We run the risk of failing to answer those students. As long as we retain the diversity of real world economics we retain our relevance, but somehow that has to be translated into something more. Something that can challenge orthodoxy and be handed to future economists as the core of the subject.

I prefer a slightly different division to Mankiw's. **There are economists who study economies, and there are economists who study economics.** Both theorize. Both search for regularities. Both offer what they think is practical advice. Both develop technologies based upon their theories. There are engineers and scientists in both camps. The difference is more fundamental than Mankiw suggests.

Those who study economies are naturally drawn to real world economics, whether they think of themselves in that camp or not, because of their attention to the world around them. If the real world and its variety, its institutions, cultures, religions, its diversity and even its geography influence a theorist's starting point then they are studying economies in a real world sense.

Those who prefer to investigate the properties of equilibrium, rational expectations, and efficient markets are studying economics. They are dealing with abstraction since their starting point is an artefact created from assumptions, axioms and the like. Their hope is that they can elicit useful statements transferable to the real world, but yet not study the real world.

The problem with this split is that it implies that economics over the years has come to represent something other than the study of economies, and this is the source of the conflict that now rages. The realists complain about the irrelevancy of orthodoxy now that it has become little more than a self-referential series of models whose major value resides in their elegance and sparseness. There is a feeling that economics should engage the real world rather than resist it. It is a feeling that a true 'science' should not view so much of reality as a failure to conform with theory. Rather it should explain the texture of reality, albeit through the prism of mathematics and models.

It is the progressive, or creeping, disengagement of economics from reality, and the almost contemptuous treatment of its texture as anomalous rather than the norm, that eventually caused the students to rebel.

Rightly so. That act of rebellion should have been a wake up call that the profession was on the wrong track. To curators of the subject, the rebellion should have prompted reflection and questioning. Are the right things being taught? Is the curriculum reflecting the broad and rich traditions outside of the orthodox view? Are we confident that economics is the study of economies? Or is it something else? If it something else, is that worth teaching as economics? Is it simply a form of mathematics? Does economics even exist in its own right if it has no roots in the real world?

To realists these are important, even vital, questions. To the orthodox they are not, because they consider the questions answered. Indeed to an orthodox economist it must be infuriating to have the conversation, which probably explains the vitriolic responses I come across when I cruise around the websites of non-orthodox economists.

But name calling doesn't make the doubts of the realists go away. Their critique gathers strength from the denial of the orthodox. The air becomes thick with slurs flung back and forth. It is tempting in such an atmosphere to flee the field and return to the relative comfort of research or teaching. An outsider perusing the agenda of the recent American Economics Association gathering in Atlanta could be forgiven for not realizing the fight that is going on. The agenda was filled with the usual research. There was very little evidence of schism. A scant year after an economic crisis that appeared to have disproved the more dogmatic parts of orthodoxy and the profession was apparently back to normal.

No such luck. Those students and those of the future still need an answer. A coherent alternative answer.

The war that goes on has leaked into the popular press. A wider audience wants to know we accept the responsibility to leave economics improved not fractured. We cannot shirk our burden to get economics right. It has to be about something other than its own artefacts. Otherwise it serves no purpose and can be shelved along with alchemy as a nice try and nothing more.

How does Eugene Fama explain to his students his comment, quoted in last month's New Yorker magazine, that he takes comfort in being criticized by Paul Krugman? Presumably those students are not given access to what Krugman has to say. If not, they are diminished. They are given no choice. They have to rely on Fama's judgment of what economics is. Yet the very comment exposes that economics is more than what he says. It has many sides, and many views. He exposes economics as being heterodox simply by responding to the question.

That same article suggests that economics has arrived at an analogous point that physics occupied after the emergence of quantum mechanics. After a long and fractious conflict it settled back down into its modern form.

The problem I have with that analogy is that we have been here before. Economics has always harbored alternatives. It isn't physics. It never will be. It cannot be singular by the nature of its subject matter. Economies are vastly rich and complex structures. They are heterodox. The search for regularity should not delude us into thinking economies are either simple or standard. That's why I side with the realists. To me economies seem so full of asymmetries, inequalities and uncertainty that exploring things like equilibrium is simply a

fools game. Interesting as a highly restricted and near utopian special case perhaps, but not central, and definitely not worth a dominating position in the curriculum.

This is why economists who make statements that, for example, they know EMH is mostly wrong, but still has some value, infuriate me. Fix it. Bring it back into the real world. Follow through and change it. Get back to me when you are done. Meanwhile stop promulgating it as if it were correct, and stop pouring scorn on those who are trying to develop alternatives. Simply saying that something is the best we have is to toss aside our role as curators of economics with a carefree abandon. It is reckless.

As people committed to science, or a scientific view in a broad sense, economists should be happy to learn. They should embrace the failure of an idea as a chance to modify and improve their discipline. They should respect the attacks of their colleagues as attempts to further the collective good. That's what scientists do. That's what people committed to their students do. Or at least I thought so.

Which brings me back to the present infighting. I look on with a mix of horror, concern, and fear precisely because the disarray in economics, the arguments and the personal slurs, tell me that the people engaged in all that mud slinging have forgotten how to learn. If they have forgotten how to learn they have probably forgotten how to teach.

Now what do we tell the students?

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