

Economics: Hoist by its own Petard?

by Keith Rankin, 18 July 2014

At last week's History of Economics Thought conference, the refrain of economics' undervaluation of its own history was supplemented by a deeper concern about the future of economics itself, as an academic discipline.

The problem is that the public generally buy into economics because they believe that the purpose of economics is to understand the principles of how economies actually work; how people allocate resources and facilitate their collective material well-being.

Indeed economics does give many useful insights into the use of resources in the real world. But, at its core, academic economics represents an idealist project that describes and prescribes an ideal world; a world that can never be and a world that few of us would actually like to live in.

The discipline was in trouble before 2008, because, unlike meteorology, it was not able to tell us much that seemed useful, neither about solving the problems we thought economists were concerned about nor about the problems we feared economists were not worried about.

Then, in 2008 the public was rightly alarmed that mainstream economics was totally blind, maybe willfully blind, to the financial and subsequent economic crisis that we now know as the Global Financial Crisis (GFC). Why should people buy a subject that appears to be completely useless? The emperor of the social sciences was naked.

Economics emphasises the principle of consumer sovereignty. This is the petard upon which economics now appears to be impaled by. We produce more of what people want more of, and are willing to pay for. We produce less of what people want less of. People want less economics, in large part because people haven't gained the benefits from economics that they paid for. Economics has a credibility problem.

Consumers of Economics

Students, schools, businesses (financial and non-financial), journalists and governments are all consumers of economics. But usefulness to students is more about helping them to gain employment than in satisfying a sense of curiosity about the workings of the world. It is the schools - in particular the universities - that have traditionally directed students into studying economics as a core subject in a business degree, or as a useful option in an arts degree.

In the 1980s and 1990s economics departments moved from social science faculties to business faculties, as economics was increasingly seen as a service discipline rather than as a science. (Pure economics is actually a subject that comes midway between pure maths and classical music; it's about form, technique and aesthetics rather than about the actual world we all try to make a living in.)

Capitalist businesses have traditionally liked mainstream economics because it did not ask the difficult questions about inequity and exploitation. But, increasingly, economics has been unable to address the problems that capitalist businesses are concerned about; economics has lost its mojo in the very circles that patronised it. Without its business sponsors, academic economics has few places to go.

The only other area of outside market demand for economics is in policy analysis. This is the area that is of most interest to journalists, and of course governments. Increasingly though, it is only the Treasury and the Reserve Bank who are telling policymakers that investment in economics is important. Thus it is mainly economists who are buying economics, as well as selling economics.

Likewise within higher academia. Academic economists are increasingly subject to perverse incentive structures. Prestige in academic economics comes from impressing academic economists, much as birds of paradise try to impress other birds of paradise with their feathery superstructure and their mastery of technique.

So long as academic economists wedded to the idealist foundations of economic liberalism represent the predominant market for academic economics, present incentive structures persevere; structures that discourage research into history, policy, private debt, distribution, public equity, and forms of market failure such as environmental unsustainability. Favoured topics are private property rights, government debt, general equilibrium, efficient markets, prices as the only useful form of information, inflation as a problem that undermines the price mechanism, and econometric technique; an obfuscating mix of equations and assumptions.

Social science, not dogma

Economics doesn't flourish as a broad-church social science because of the narrow anti-government assumptions of its founders; assumptions that over-emphasise private and individual action, and under-emphasise those aspects of resource allocation that are inherently collective. Economics is dying because of the intolerance of economic liberalism.

The biggest danger of the present market-driven diminution of academic economics is that it will leave an intellectual vacuum to be filled by a pot-pourri of supposition-based beliefs. Economics needs to reform itself, quickly, before it is killed off by the very marketplace that it espouses.

You, readers of this blog, should be attentive of reforms as they take place. You need to buy into those emergent components of economics that are accessible, and that do address the collective wellbeing of ourselves, our children and grandchildren. Because if you let economics die, the forms of anti-economics that take its place will undermine rather than underpin the wellbeing of humanity.

Incentives do matter; so economics, the science of incentives and their collective outcomes, matters too. We should not throw out the baby of economic understanding with the bathwater of an economic liberalism that espouses form over substance.
