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Introduction

WHY DID NO ONE SEE IT COMING?

On 5 November 2008, Her Majesty Queen Elizabeth II was opening a new building at the London School of Economics. Speaking of the credit crunch, she turned to some of the economists present and said, 'It's awful. Why did no one see it coming?' Journalists, not constrained to be diplomatic, were more forthright in condemning economists. For Anatol Kaletsky, one-time economics editor of the *Times*, 'Economists are the guilty men' (the *Times* 5 February 2009). The economics editor of the *Guardian*, Larry Elliott, claimed that 'as a profession, economics not only has nothing to say about what caused the world to come to the brink of financial collapse … but also a supreme lack of interest' (the *Guardian* 1 June 2009). Writing in the same newspaper, Simon Jenkins attributed this failure to the fact that 'Economists regard it as their duty fearlessly to offer government what it wants to hear. … Don't rock the boat, says the modern profession, and the indexed pension is secure.' The whole economics profession, he contended, had 'suffered a collapse' (12 November 2008).

Even more significantly, prominent economists have argued that the profession has gone astray. Nobel Laureate Paul Krugman, whose academic career has taken him through some of the world's leading economics departments – MIT, Yale and Princeton – has endorsed the view that blame for the crisis falls on economists as well as on financiers, bankers and policy makers. His assessment is that 'the economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth' (*New York Times* 6 September 2009).

The charge is serious because Krugman is arguing not just that economists got something wrong but also that their failure was deeply rooted in values that are at the heart of the profession.

These are not isolated criticisms. They reflect widely held attitudes, not just in Britain, but also in the United States, Europe and, no doubt, in most countries affected by the economic crisis. Following one of the biggest economic policy failures since the 1930s, the economics profession is getting a bad press. Yet only a few years ago, the image it presented to the public was very different – that of a discipline that was not just successful but also overflowing with confidence. Economics was the key to understanding everything, as the titles appearing in bookstalls revealed: *Everlasting Light Bulbs: How Economics Illuminates the World* (Kay 2004); *Freakonomics: A Rogue Economist Explains the Hidden Side of Everything* (Levitt and Dubner 2006); *More Sex Is Safer Sex: The Unconventional Wisdom of Economics* (Landsburg 2007); *The Logic of Life: The New Economics of Everything* (Harford 2008); *The Economic Naturalist: Why Economics Explains Almost Everything* (Frank 2008).

The changed attitude towards economics is hardly surprising. The forces that drive the economy from boom to depression and back again remain a mystery to most people. In times of prosperity, people can leave esoteric matters, such as credit default swaps, collateralized debt obligations or the London inter-bank lending rate, to the professionals, trusting that they know what they are doing. It is only when something goes wrong that questions are asked and people demand explanations of why billions of dollars, euros and pounds of taxpayers' money are suddenly being poured in to prop up the financial system.

Yet there is more to it than this; criticism of economics did not begin with the banking crisis of July to September 2007. Far from it, there had long been unease about economics. Thus Diane Coyle, one-time economics editor of the *Independent* and the author of *Sex, Drugs and Economics* (2004), a book in the 'economics is the key to everything' vein, saw a need to put the record straight. Economics, according to the title of her second book, was not the 'dismal science' – it was *The Soulful Science* (2007). Shunning the popular themes of her previous book, she explained that economists had begun to understand the role of innovation in economic growth and how to design policies that would eventually make

poverty history. Critics of economics, she argued, simply did not understand the subject.

Coyle's target was what she called the 'policy intelligensia', a term covering those who write in opinion columns in the *New York Times*, the *Guardian* or *Le Monde*, or the longer, seemingly more serious, pieces emanating from policy think tanks or published in *New Republic* or the *Nation*. In the aftermath of a financial crisis that precipitated a depression, her claims may look over-optimistic; nevertheless she hits many of her targets. What she missed, however, is the fact that not all critics of economics are journalists; they include insiders – academic economists who dissent from the views that dominate the profession.

A very recent example is *Economics Confronts the Economy* (2006) in which Philip Klein argued that most economists were involved in peddling an unchanging *laissez-faire* view of the world. The face of economics is, he claimed, failing to change because academic economics is controlled by a comparatively small group of economists located in the top departments (University of Chicago, MIT, Stanford, Harvard and so on) who edit the leading journals and act as a barrier to the emergence of new ideas. Most research in the subject, Klein argues, is characterized by the trivialization of the subject and a search for elegance, irrespective of the costs. If we look elsewhere, we find *A Guide to What's Wrong with Economics* (Fullbrook 2004) in which no fewer than twenty-seven authors wrote about different and allegedly fundamental flaws in the subject. Or Steven Marglin's *Dismal Science: How Thinking Like an Economist Undermines Community* (2008), the message of which is clear from its title. These books echo the views of many heterodox economists, who are convinced that most of their orthodox colleagues are taking the subject down the wrong path.

So why is it that intelligent, seemingly well-informed economists can have such different views of their subject? To put it another way, how can one economist take the view that the discipline is successfully solving the problems confronting society, whilst another sees the discipline as engaging in abstract theorizing that has no bearing on the real world? These are questions that need to be answered if we are to make sense of modern economics.

To place this discussion in context, it is important to be clear that these questions are not unique to economics. Of course, economics does exhibit more disagreement than the natural sciences. Physicists may question whether or not the universe started with a 'big bang' or disagree over how to explain gravity, and biologists may disagree over specific processes of evolution. This says no more than that there are unanswered questions in science. But such disputes are conducted within a generally accepted framework: the laws of physics cannot simply be rejected (though they may periodically be seen in a new light), and within biology the principle of evolution through natural selection is not questioned, though the manner of its operation may be debated. But in the social sciences, fundamental disagreements exist and remain unresolved. The complexity of the problems that are dealt with in the social sciences and the way human societies are continually evolving, developing new institutions within which people interact in different ways means that the social sciences probably never will possess empirical bases that are as firm as those on which the natural sciences rest.

Even so, economics is unusual. The field has had a much stronger disciplinary identity than most other social sciences, with greater agreement on what the core of the subject comprises. In this, it is closer to the natural sciences than it is to, for example, psychology, its great rival within the social sciences. Psychology has what has been described as a 'protean identity': it is a 'trans-discipline' that encompasses approaches that are as hard to reconcile as behaviourism and psychoanalysis and in which there is no agreement on something as basic (to an outsider) as whether 'the mind' is even a meaningful concept. Sociology, too, despite the claims of those who see it as the master social science, is so varied that one can question whether it is even possible to speak of a single sociology rather than many sociologies. Similarly, political science comprises disciplines (political theory, political behaviour and international relations) between which there are clear divides.

But economics' strong disciplinary identity does not translate into agreement like that found in the natural sciences, for there remain economists who dissent from what, in the eyes of most of their colleagues, are basic presuppositions that all economists should accept. In some cases this goes sufficiently far that dissenters effectively cease to communicate

with other economists, creating communities that advocate alternative heterodox approaches to the subject. Thus, when the credit crunch called into question the conventional wisdom on the benefits of deregulated financial markets, there were groups that had always been sceptical about the stability of unregulated markets; they stood ready to claim that their views of the world had been vindicated.

THE PROSECUTION

A clear example of recent disquiet with economics is the movement known as Post-Autistic Economics, which was started in June 2000, when a group of students at École normale supérieure, in Paris, published a petition protesting the state of economics and the way it was taught. They claimed that economics had come to be concerned only with imaginary worlds, that mathematical techniques had become an end in themselves, and that the teaching of economics had become excessively dogmatic.

> Most of us have chosen to study economics so as to acquire a deep understanding of economic phenomena with which the citizens of today are confronted. But the teaching that is offered, that is to say for the most part neoclassical theory or approaches derived from it, does not generally answer this expectation. Indeed, even when the theory legitimately detaches itself from contingencies in the first instance, it rarely carries out the necessary return to the facts. The empirical side (historical facts, functioning of institutions, study of the behaviours and strategies of agents …) is almost non-existent. Furthermore, this gap in the teaching, this disregard for concrete realities, poses an enormous problem for those who would like to render themselves useful to economic and social actors. (Fullbrook 2004, p. 2)

This protest provoked strong reactions. A group of French economics teachers produced their own petition, echoing the students' call for greater pluralism in the teaching of the subject: teaching had become divorced from reality and the way to put this right was to broaden the curriculum. Only a more pluralistic economics would foster critical thinking and enable students to question the unthinking use of mathematics in economics. The issue became public on 21 June, when *Le Monde* published a symposium in which several economists supported

the students' claims. The French education minister became involved, commissioning a report on the state of economics education in France.

The debate was not confined to France. Prominent American economists became involved in the French debate, some defending the status quo. The following June, a group of Ph.D. students at the University of Cambridge circulated a petition criticizing the narrowness of economics and calling for a debate over its foundations. They collected hundreds of signatures from academic economists in a wide variety of countries. Making use of the Internet, and taking up a phrase used in the original French students' petition, the Post-Autistic Economics Network was set up to ensure that the debate continued. Autism was used as a metaphor for the way economics had lost its sense of perspective, emphasizing one approach to the exclusion of others and not relating to the real world in any meaningful way.

If it were an isolated event, the flurry of debate over Post-Autistic Economics would not be very significant. A few hundred signatures may sound like a large number, but they represent no more than a tiny fraction of the total number of economists in the world (the American Economic Association alone has more than 20,000 members) and even of those studying economics in France. It is safe to say that, for the bulk of the profession, it was not a significant issue even after they heard about it. Most economists will have agreed with the reaction of Robert Solow, professor at MIT and winner of the Nobel Memorial Prize in Economic Science for his work on growth theory, who is widely regarded as open-minded – just the sort of economist one might expect to sympathize with the students' call for greater pluralism – that these criticisms were misconceived. He argued in *Le Monde* (3 January 2001) that any alternative theory worth taking seriously must obey the rules of logic, take account of the facts and be parsimonious, and that he could not think of a single 'alternative approach' that met these criteria. It was wrong, Solow claimed, to argue that valuable alternative approaches were being pushed aside: the dominance of American economics, to which the French students had objected, arose simply because of the size and competitiveness of the U.S. academic system.

But the French students' complaint was not an isolated event. In 2003 a group of students at Harvard argued a similar case, wanting a curriculum

that would be more critical of conventional ways of thinking. Disquiet about the content of Ph.D. programmes was not confined to students. In the late 1980s there had been concern with the content of American Ph.D. programmes, prompted by a survey that found that students were highly cynical about what they were studying and that there was a widely held belief among doctoral students that many of those trained in top graduate programmes did not have a sufficiently broad education to teach undergraduates in liberal arts colleges. The problem was that graduate students in economics learned advanced mathematical techniques and could prove theorems, but they knew nothing about economic institutions, economic statistics or the issues involved in policy making. Proficiency in mathematics and the ability to solve puzzles were considered far more important to making it through graduate programmes in economics than knowing anything about the economy. Success involved being good at playing intellectual games, irrespective of whether they revealed anything about the real world. The result was that the American Economic Association established a Commission on Graduate Education in Economics (COGEE) that produced a report recommending a series of changes, though little changed as a result.

The view that the economics curriculum has become excessively narrow and places excessive emphasis on mathematical technique is held by a wide variety of economists. Some do not object to the use of mathematical theory per se – they merely want to encourage a broader, more open-minded approach to the subject. For them, the metaphor of autism suggests merely that there has been a loss of perspective – that the discipline has got its priorities wrong. They do technical work that is published in the leading journals and work alongside colleagues who are entirely happy with the status quo, and they are merely arguing for a change in direction.

However, there are others who go much further in their criticisms. These are heterodox economists whose identity as economists rests on standing out against the orthodoxy that dominates the discipline. That orthodoxy may sometimes be defined in terms of specific beliefs about the economy; more often, it is defined as hostility to the methods that are used to justify such policies. A good example of such a wholesale rejection of commonly accepted methods and practices can be found in

the book *Economics and Reality* (1997) by Tony Lawson. He argued that orthodox economic theory and the statistical methods used to apply that theory to real-world data are deeply flawed, being relevant only to a world that exhibits stable empirical regularities. Such regularities, he claims, are simply not to be found in economic phenomena, rendering the whole enterprise fruitless. His rejection of mainstream economics was so decisive that accommodation was clearly impossible: most economists were bound to reject the book out of hand, and it was inevitable that it would appeal only to a minority. However, the book clearly struck a chord with journalists and some academics, both inside and outside economics. For many, the title said it all – economics was widely perceived as having lost touch with reality, and the book faced up to this. Ormerod's *The Death of Economics* (1994) got a similar response. Echoing the title of a West End show, the line 'No reality please, we're economists' was used as the title of a number of critical pieces about economics. Scepticism about economics runs deep.

Heterodox economists often find inspiration in figures from the past, looking back to economists such as Karl Marx, John Maynard Keynes, Thorstein Veblen (the late-nineteenth-century critic of America's 'leisure class' or the late-nineteenth-century Austrians who defended the free-market economy against its Marxist critics). What these heterodox economists have in common is that none of them engage in modern, technical economics. In each case, they claim that orthodox economics has failed to see the full significance of their favoured economists' ideas. For example, Post-Keynesians argue that, although orthodox economists learned something from Keynes, they failed to see the significance of what he wrote about fundamental uncertainty (i.e., uncertain events to which it is impossible to attach meaningful numerical probabilities) and that this failure fatally undermines orthodox theory. Other heterodox economists are driven by specific concerns. For the Union for Radical Political Economy these concerns are overtly political: orthodoxy fails to take account of class, power and income distribution. Feminist economics points to hidden, gendered, presuppositions in orthodox theory, aiming for an economics that is free of such biases.

All disciplines attract criticism from dissenters whom few practitioners take seriously. It is enough to list supporters of 'alternative' medical

therapies such as homeopathy; creationists who espouse 'intelligent design' as an alternative to evolution; parapsychologists and astrologers. In most cases they can be dismissed as cranks. Peer reviewing in academic journals is, after all, about ensuring that only respectable work gets published, and professional qualifications are about excluding those who do not follow accepted practices in fields such as medicine or psychology. Heterodox economists may feel that their place in the profession is tenuous, a view that is borne out by the widespread ignorance of their work. But heterodoxy is a phenomenon that has been around a long time.

THE DEFENCE

Most critics write from the belief that economics is dominated by an orthodoxy that prescribes the use of a particular, highly abstract theory and a tightly circumscribed range of methods that together serve to exclude serious treatment of real-world problems. The normal response is that, even if it were once correct, this characterization is so out of date as to amount to a caricature of what is going on in the field. It may have been the case in, say, the 1960s, or even the 1980s, but there has also been such a proliferation of radically new approaches to economics that the charge of methodological narrowness is impossible to sustain. If there is a central theoretical framework for the subject, it is game theory, which can be used to analyse issues of strategy and power, not the theory of general competitive equilibrium on which critics often focus. Furthermore, because game theory yields results that are highly sensitive to context, it forces economists to pay attention to institutional details. Such details might include the procedures according to which wage bargaining is conducted, the remuneration packages received by managers, the barriers to establishing new firms, or the use of anti-competitive practices.

Not only that, but economists have been able to use their 'excessively abstract' theories to help create markets where none previously existed. When John McMillan, a New Zealander whose career at Stanford ended with his untimely death in 2007, who specialized in the theory of auctions, wrote *Reinventing the Bazaar* (2002), he had in mind a phenomenon that was not just the result of politicians being willing to consider

market solutions to economic problems but also the result of economists' applying their theories to real-world problems. Theory made it possible to establish where markets could be made to work and how they should be designed. Similarly, critics were for a long time sceptical about 'experimental economics' in which human subjects have to make decisions in a controlled environment with a researcher monitoring their actions. But such experiments, like game theory, have been used to help design new markets and to solve real-world problems.

Economics has also become much more empirical than its critics imply. Looking at the U.S. academic job market in 2007, Angus Deaton, a Princeton professor who was involved in the university's hiring process, observed that it had become normal for Ph.D. students looking for jobs to offer papers based on extensive empirical work, the result of searching through large data sets (*RES Newsletter* April 2007, p. 5). Topics he encountered included the prison parole system in Georgia, HIV/AIDS in Africa, child immunization in India, political bias in newspapers, child soldiers, racial profiling, leisure choices, mosquito nets, treating leukaemia, child development, and the relationships to each other of war, television, bilingualism and democracy. This list is given in full to show its variety. Furthermore, few of these, Deaton claimed, relied substantially on either economic theory or the most advanced econometric (statistical) techniques. Most of the job candidates he encountered were weak on traditional price theory but possessed considerable data-handling skills.

One of the best illustrations of the changes that have taken place in economics is the theory of finance. During the 1980s and 1990s, evidence accumulated that rational behaviour could not explain fluctuations in stock market prices: prices fluctuated much more than could be explained by the 'fundamentals', such as corporate profits, that should have explained them if investors were rational. To explain this, economists turned to psychology. Investors might assume that past trends would continue, investing in stocks whose prices had risen; they might attribute successful investments to their own skill, whilst blaming unsuccessful ones on bad luck; or they might hold on to some stocks too long, because taking losses was so painful. Stories may begin to circulate about why certain stocks are doing well (perhaps due to the emergence of a 'new economy' or new sources of profit via the Internet), apparently