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978-1-107-01570-8 - The Economics of Economists: Institutional Setting, Individual Incentives, and Future Prospects

Edited by Alessandro Lanteri and Jack Vromen

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## Introduction

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*Alessandro Lanteri and Jack Vromen*

For most people, the most important economic activity is the one they are engaged in. For lawyers and accountants it is corporate consulting, for volunteers and activists it is the third sector, for nurses and doctors it is healthcare, for politicians and public officers it is the public sector. So, for economics scholars, the most important economic activity is their own trade: academic economics. This is precisely what this volume is about.

### **The economics of economics**

Given the importance of academic economics for economists, it's not surprising that the topic has been studied and debated for quite some time now. Already in the 1970s, economists were employing the tools of economic analysis to investigate their own discipline (e.g. Siegfried 1971; Berg 1971; Hansen and Weisbrod 1972; Lovell 1973; Stigler and Friedland 1975, 1979). However, these early investigations, and those of the following two decades, are best regarded as case studies in the broader field of the economics of science (Stephan 1996; Mirowski and Sent 2002; Diamond 2008), whereas the full awareness of the existence of a distinct subject that could legitimately be called the economics of economics is a fairly recent business, dating from around the end of the 1990s (Colander 1989; Hands 1994; Maki 1999).

Partly because its history is brief and partly because it is two-headed (see below), the economics of economics does not have – as of yet – a coherent theoretical framework or even a consensus over a body of knowledge. At this stage, the field is best defined by its object (academic economics), rather than its methods. Some of the strands that have emerged in the economic investigations of academic economics have been the following:<sup>1</sup>

<sup>1</sup> A full review of the field would be beyond the scope of this introduction. The reader may refer to Medema and Samuels (1996) and Coupé (2004) as starting points. The works

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- (i) applied studies in other subfields of economics (e.g. economics of education and labor economics);<sup>2</sup>
- (ii) studies based on the application of specific methods (e.g. the experiments on the ethics of economists);<sup>3</sup>
- (iii) comparative studies on economics as an academic discipline (e.g. the ranking of economists, economic journals, and economic departments, and assessments of the discipline at large);<sup>4</sup>
- (iv) studies derived from the economics of science (e.g. the content and the production of economics knowledge);<sup>5</sup>
- (v) studies derived from the sociology of scientific knowledge and the philosophy and methodology of economics (e.g. institutional analysis of the economics discipline).<sup>6</sup>

Consequently, the early years of the economics of economics have been characterized (if we are excused for this simplistic taxonomy) by progress along parallel lines. The one promoted by, as it were, full-blown economists (roughly the bullet points (i) through (iv) above) and the other by methodologists, philosophers of science, and sociologists. The former tended to be more descriptive about the state of the discipline, while the latter has been more normative, and critical at that.<sup>7</sup> It is time, we believe, to bring these two strands together.

The main reason to do so is that economics is bound to undergo some changes, to which methodologists can positively contribute. The recent (or current, by most accounts) financial crisis has put extra pressure on the profession. This time, not just from outside the Departments of Economics, but even from outside academia. For example, the July 18, 2009 issue of *The Economist* featured a cover portraying a book of “Modern Economics Theory” melting like an ice-cream, accompanied by the discouraging title “where it went wrong – and how the crisis is changing it”.

cited in the following footnotes do not hope to cover entire fields or subfields of research, but more modestly to testify to their scope and variety.

<sup>2</sup> E.g. Carson and Navarro (1988), Diamond (1986), Siegfried (1971), Stock and Siegfried (2001).

<sup>3</sup> E.g. Frank et al. (1993), Frey and Meier (2003).

<sup>4</sup> E.g. Amir and Knauff (2008), Bowen (1953), Grijalva and Nowell (2008), Kalaitzidakis et al. (2003), Krueger et al. (1991), Siegfried et al. (1991).

<sup>5</sup> E.g. Ellison (2002), Oster and Hamermesh (1998).

<sup>6</sup> E.g. Hodgson (2007), Hodgson and Rothman (1999), Maki (1999).

<sup>7</sup> That the criticism came from outside the profession has certainly diminished its impact. The indifference of economists to the recommendations of methodologists was an early theme in the economic methodology literature (Caldwell 1990; Hands 1990). In recent years, it should be noted, also this strand of research has become more positive.

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### **Economics without crisis**

When we first began working on this volume, in the early months of 2008, the financial crisis had not yet played out to the extent that we were later to witness. Though that event induced us to make some changes, this is not a volume about the financial crisis. Some excellent pieces of research have been published on the topic already (e.g. Lawson 2009, Schneider and Kirchgassner 2009), so there would be little need for another one.

Neither is this volume about the crisis in academic economics. For one, we are not so sure that academic economics is in a crisis. (Or, at any rate, that it is in an any worse crisis than it has been for the past half-century.) We concede that this time the complaints about the state of economics also come from the insiders and the public, and not just from the ranks of the methodologists, but more and more vociferous complaints attest to a heightened perception of what could be taken as signs of a crisis, not to its increased severity.

While – as methodologists – we cannot but welcome this stirring debate on the state of academic economics, we ought to make clear from the outset that we do not regard this as an opportunity for (further) economics bashing. The profession of academic economics has been long and widely criticized. However, it has been studied only sparsely. In this volume, we take up the challenge to understand before any criticism.

We agree that economics has a rich conceptual apparatus that is fit for studying many social phenomena (and especially so when it borrows freely from the tools of the heterodoxy and of the other social sciences), including of course the conduct of economic scholars and the organization of academic economics. The starting assumption of this volume, therefore, is that economists are just intelligent people, who try to navigate (and succeed in) their professional and social environment. In words more familiar to the profession, economists are rational actors who react to incentives.

### **The economics of economists**

In Part I, the volume proceeds to identify these incentives, by means of exploring the environment within which academic economics takes place. Part II uncovers the incentives individual scholars face in their professional lives. That it does not pursue outright economics bashing, however, should not suggest that this volume is an apologetic account of the profession. Many of the chapters take very critical stances on several

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issues. Part III, moreover, directly addresses many challenges to the profession and discusses possible solutions. The themes addressed in the volume are so broad that they naturally cross individual chapters. There are, therefore, many ways to read this volume. The most natural would be to follow the order of the chapters, which have been arranged within each section roughly from the most general to the most specific. Let us also suggest one alternative.

The first chapter, by Arjo Klamer, introduces the culture of academic economics, the economists' way of being, the broad and loosely defined set of the conventions and values that make academic economists different from any other group. The notion of culture evokes a social and shared dimension. Although typically overlooked, the social dimension is central to understanding any scientific community. Chapter 4, by Alberto Baccini and Lucio Barabesi, tackles the issue with the tools of network analysis, and explores the connections between the editorial boards of economic journals. When an editor sits on more than one board, she constitutes a link between the two journals. The ensemble of these connections forms the overall social network of economic journals, analyzing which they uncover some fascinating patterns in the functioning of the profession.

The indices commonly used to evaluate scientific quality – crucially, the number of citations received by one's publications in peer-reviewed journals and the Impact Factor of those journals – reflect the relational and communal dimensions inherent in academia, too. Such indices are used to establish the performance of individual researchers and the quality of entire departments, on whose basis entire rankings are compiled. In Chapter 3, Bruno Frey and Margit Osterloh discuss the advantages and the disadvantages of these rankings. They point to the major issue that scholars will change their behavior to respond to the incentives created by the rankings, which might trump the benefits of the rankings themselves. They also propose alternative, and superior, options.

The growing reliance on standardized indices of academic performance reflects one of the major developments in economics over the twentieth century: its globalization. As Marion Fourcade explains in Chapter 2, the profession has evolved to become increasingly homogenous across several countries, following the same (and typically US-based) professional standards. Yet, in Chapter 5 David Colander regrets this may not be for the better. As European economists chase after the Americans, they sacrifice their traditional strengths and renounce their chance to develop into "a true global economics power."

Increasingly, therefore, we can expect also the training of economists to converge toward an international standard that defines the skills

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and knowledge which ought to be passed on to graduate students. Such standards have been a hot issue in economics at least since the late 1980s, when the American Economics Association established the Commission on Graduate Education in Economics (COGEE) in reaction to the interviews with graduate students conducted by two of the contributors of this volume (Colander and Klammer 1987). The major finding of the COGEE was a reported isolation of the profession from real-world economic problems (Krueger et al. 1991), perpetrated by means of teaching an array of theoretical notions and mathematical techniques to economists in the making. The COGEE does not seem to have had any consequence on the profession (Colander 1998). At long last, even graduate education in economics may have to change.

Although we would welcome several changes in the training of economists, this volume does not endorse any specific change. Economists are traditionally averse to reforms of their Ph.D. programs, but Chapter 6, by Wendy Stock and John Siegfried, offers further reasons to consider updating graduate education in economics: there is a mismatch between the skills graduate students acquire and those that, as economists, they require to succeed in their profession. After following a cohort of Ph.D. students over a ten-year period, Stock and Siegfried report that they consistently identify as a weakness of their graduate economics programs the little emphasis put on application of theory to real-world problems, and on understanding economic institutions and history.

The almost exclusive focus on abstract economic models, moreover, is alleged to be one of the main culprits of the financial crisis, as Colander et al. argue in Chapter 13. On the one hand, therefore, graduate schools could serve better the new economists they train by expanding their focus. On the other, they would also serve the larger interest of producing relevant and useful knowledge. Such change would also require economists to introduce changes both in attitude and methodologies. Along these lines, Deirdre McCloskey, in Chapter 8, proposes a full overview of the (few) virtues and the (many and of varying severity) sins of economics. Among these, two “mortal sins” stand out: the devotion to qualitative existence theorems based on implausible assumptions and to testing statistical significance (instead of substantive significance). Though they often prove of limited practical consequence, economists employ (only) both of them to draw conclusions about real-world economic phenomena.

In Chapter 9, Robert Frank suggests one possible solution to the seeming irrelevance of economics classes for an understanding of real-world economic phenomena, though his solution is aimed at undergraduates rather than at graduate students. He proposes to teach students only a small number of basic concepts (e.g. cost–benefit analysis) and then stimulate

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them to employ such concepts to understand some phenomenon in the world that surrounds them. Finally, students should try and describe such economic understanding in narrative form. Such technique, called the “Economic Naturalist” has several merits. It might, however, induce narrow-mindedness in students instead of stimulating their intellectual curiosity, as Jack Vromen argues in Chapter 10. Like “ordinary people,” students are not free from confirmation biases. Once they are hooked on thinking as an economist, they might be disinclined to think of alternative hypotheses and to give them a fair chance. Telling the students that after having mustered the typical economic way of making sense of phenomena there is still the need for critical empirical testing might come too late.

Moreover, by helping students “think like economists” it might foster selfish conduct. Indeed, another sensitive item in McCloskey’s inventory of economists’ sins, and one of the main topics in economics of economics, is an alleged tendency to selfish conduct. In Chapter 7, Wade Hands brings this topic to quite an extreme realization. Having one’s name attached to a scientific finding (e.g. Nash equilibrium, Say’s law, Phillips curve...) is one of the greatest academic rewards. It is thus puzzling that priority fights, as the squabbles about the attribution of important findings are called, are non-existent in economics. Yet, priority fights in science are usually conducted not by the authors in the pursuit of selfish goals, but by their colleagues and out of moral indignation for the mistaken attribution. Hands traces this puzzle down to the lack of such moral indignation among economists – who do not stand to earn anything from the correct attribution of a finding to some colleague. Alessandro Lanteri and Salvatore Rizzello, in Chapter 12, argue that the self-interested behavior of economists can be described not as an individual inclination of economists, who are selfish individuals who self-select in the dismal science, as it is often suggested in the experimental literature on economists’ conduct. Instead, it might be an adjustment to the stereotype of the economist. They support such a conclusion with a novel experiment, in which students of Occupational Therapy are triggered to defect more than students of Economics.

Yet another point raised by McCloskey, though one not pursued in this volume is that some of the sins of economics are distinctively masculine, and that men are overrepresented in the discipline. However, Donna Ginther and Shulamit Kahn show in Chapter 11 that there is no difference between men and women in the likelihood of getting tenure or becoming full professors. More specifically, the difference is in the consequences of choosing to have a family, which induces women, but not men, to abandon their academic career. So, the observed gender differences can be explained by such choices.

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*Part I*

The institutional setting of academic  
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