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## **Economics, not what we thought!**

The crisis of the end of the previous decade has shaken many conventions and necessitated a profound reform of economic studies, but this sometimes capitulates to norms of political correctness.

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The economic crisis of the end of the previous decade undermined many economic conventions. For example, that it is necessary to separate between banks and institutional bodies operating on the stock exchange, a separation that was introduced in the US after the 1929 crisis. After 80 years, in 2009, it turned out that these non-banking institutions, called "investment banks", are the weakest link in the financial sector. They fell one after the other with the first gusts of the crisis - either disappearing or being taken over. This week, Bank of America, which rescued the Merrill Lynch investment bank from bankruptcy, announced the elimination of Merrill Lynch brand; to the American public it had an irritating tone.

Another convention that did not survive the crisis concerns the regulation of money and capital markets. The attempt to split it into two separate institutions - one supervising the stability of the financial market, and the other taking care of the financial consumer - failed, to say the least. The former Governor of the Bank of Israel, Prof. Stanley Fischer, told me: "When in the midst of the crisis I had to examine how various steps I planned to implement to strengthen the stability of the banks would affect customer service, I immediately asked the opinion of the supervisors in the adjacent rooms. Without formulating written requests, or going through bureaucratic channels, all under one roof. The more the regulatory mechanisms are split apart, the greater the risk to the entire system."

The boom in world stock markets, and in America in particular, created another crack in understanding the behavior of investors who ignored economists' recommendations. When Facebook was issued in 2012, they ridiculed for the inflated share value in the offering. Since then the value has risen from \$ 38 per share to \$162, 430%. Does this mean that investors are more or less rational than analysts? This subject is up for debate.

The community of economists reacted to the great earthquake and its subterfuge in different ways but agreed on one thing: it is necessary to update the study of economics in institutions of higher learning. The goal: to bring economics closer to man and man to the economy - so that the picture of the world taught in lessons will not be so far from reality.

Dozens of professors of economics from close to 100 universities around the world have joined CORE Econ initiative to teach a "pluralistic, fact-based economics, connected to reality and reflecting the best knowledge accumulated," says Yuval Ofek-Shanny, a lecturer and doctoral student in economics at the University of Haifa who is leading with Dr. Benjamin Bachi the reform in his place of studies and work.

"A first course in introduction to micro-economics according to the new curriculum is behind us, and now we have an even more complex task of reforming the study of macroeconomics, the national economy."

The most prominent personality in the international project is Prof. Samuel Bowles, a world-renowned American economist who tries to reconcile Marxist worldview with the most advanced achievements and formulas of economic science. The existing economics textbooks, Bowles wrote in an article explaining the necessity of new study programs, lack a reference to studies on game theory, the theory of bounded human rationality, the distortions of competition, multiple behavioral models, the effects of partial and asymmetric information on markets, competition between few, politics of institutions and regulators, the importance of public goods such as clean air, lessons learned from economic history in the country and abroad, the integration of fairness in the distribution of income, and more. Bowles is the head of the participants in writing the basic economics book (The Economy e-book) in a different approach to economics, which can be downloaded for free from the initiative website. On its basis, Ofek-Shanny and Bachi wrote a first Hebrew manual, which is according to Ofek-Shanny, "almost without mathematics."

*In what sense are you different in economics teaching?*

Ofek-Shanny: "We teach the students that the success of the invisible hand of the free market to bring the greatest welfare to the many is an extreme and uncommon case of the organization of economic life. The common case is precisely the failure of the competition, from which one must learn and teach. Full free competition is basically a bluff, a rootless model that is marketed without criticism to first-year students. "

But it's not just models. Ofek-Shanny stresses, following Bowles. But "a better understanding of the economic and social processes that are taking place in the world, so that a graduate of economics will not wonder in his first job, " why did I study all these theories?"

The move by Ofek-Shanny and his colleague is supported by the head of the Haifa economics department, Prof. Todd Kaplan. With his support, already in the next school year, the new approach to economic studies will expand to another semester and other fields.

Undoubtedly, a profound reform in economic studies is vital not only in universities and colleges, but also in high schools. However, I do not fully agree with the direction in which it develops under the inspiration of CORE Econ. I do not know how you can teach about the irrelevance of basic models without first teaching about them and about their internal logic. It is not clear how one can open a first chapter in a first course in economics by presenting data on inequality between different countries in GDP per capita in dollars of purchasing power before teaching what GDP is, how it is calculated, what is included in it and what is not, what is "power purchase parity" and so forth.

In terms of order and presentation, the CORE Econ textbook is read more as a propaganda article in a political journal. I hope - and convinced - that the reform in economic studies in Israel will not yield to the norms of political correctness that prevail in many institutions of higher education abroad, if only because economic departments here are bleeding in favor of business management. While in the leading universities in the west, economic students are given more than 10% of all degrees each year, in Israel, high economic studies are subject to a multi-year, multi-decade regression.

If the reform of teaching methods will stop this regression, it will be one of the most important contributions of the great financial crisis.