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Democracy Dies in Darkness



My New Year's resolution? I want to help renovate economic theory.

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Every few generations, the time comes to renovate economic theory. The liberalism of the 18th and 19th centuries, from the pens of Adam Smith, Jeremy Bentham, John Stuart Mill and others, gave way to the theories of Karl Marx and Henry George. These succumbed in turn to the work of John Maynard Keynes and T.H. Marshall, which fell away under the combined influence of Friedrich Hayek and Milton Friedman, among others.

Since the financial crisis of 2008, economists and political philosophers have been at work on our generation's renovation. My New Year's resolution is to help that renovation advance by following along as David Brancaccio, host of public radio's "Marketplace Morning Report," engages his listeners in a virtual book club, reading a chapter a month of an important new open-access economics textbook called "Economy, Society, and Public Policy." This textbook is produced by a global network of leading economists anchored at the University of London and called CORE (short for CORE Economics Education).

As the names of our leading economic theorists change, so, too, do key ideas, because errors in the views of preceding generations are corrected. Every coherent paradigm in political economy has a north star in a set of values, and this is the first place errors can creep in. As CORE economists Wendy Carlin and Samuel Bowles put it at a recent conference, classical liberalism rested on commitments to order, anti-paternalistic liberty, autonomy and specific forms of utilitarianism. Keynesian social democracy laid its foundations on values of solidarity, security and fairness. The neoliberal paradigms of the 1970s, '80s and '90s focused on freedom from governmental interference and procedural justice.

As I argued recently in an essay in the Atlantic, "The Road from Serfdom," there are three fundamental blind spots in our most recent paradigms of political economy. The first is a description of human beings as "rational actors," whose decisions rest on essentially utilitarian forms of calculation. The second is a depiction of society as consisting of millions of Robinson Crusoes, all wholly independent of one another. The third is a failure to recognize the value in forms of coordination achieved other than through the price mechanism.

Instead, human beings are purposive actors whose intentionality extends beyond narrow calculations of interest; our goals and values cannot always be represented in financial terms. Also, human beings are social, and their preferences change over time and in relation to the communities of which they are part. Social cohesion is an efficiency mechanism – transactions, institution-building and the like all move forward more easily, and in a less costly fashion, when fueled by interpersonal trust – and the same is true of well-functioning political institutions. Neither of these can be achieved through market mechanisms alone. Finally, human beings navigate all of this with incomplete information, and what economists have come to call “bounded rationality” limits our cognitive and affective processing.

Our blind spots show up not only in the question of fundamental values that go missing or are not used to build economic policy, or in economic models that abstract away from the realities of limited information and bounded rationality. They also show up in the form of policy oddities. For instance, independent central banks were designed to be inflation-fighters, as if building a sound economy would always first and foremost require fighting inflation. But, as is now commonly observed about the Federal Reserve and other central banks, the fundamentals of the present economy indicate that inflation is just not the problem that it was in the 1970s. It's not clear that central banks should still have inflation-targeting as their primary duty. Central banks have taken up the study of this question, investigating how they might focus on the stability of the financial system and on climate change. But the deeper story here is that political economy itself requires a broad rethink.

CORE has been working on new approaches to the teaching of economics since 2014. It has now published three economic textbooks in e-book form: “[The Economy](#)” (2017), “[Economy, Society, and Public Policy](#)” (2018) and “[Doing Economics](#)” (2018). By starting with real experiences of the economy as we live in it, and real questions about it, these textbooks also begin to renovate economics and economic theory, integrating recent insights into bounded rationality and human coordination into the models used to explain economics.

The “Marketplace” reading group should be an excellent place to learn what leading economic theory can currently tell us about our economy, national and global. Learning together, we might perhaps also achieve fresh answers about how to build and steer an economy that can address the problems of our age: the ongoing need for prosperity and security, and the challenges posed by inequality, disempowerment, experiences of indignity and alienation, and climate change.

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