University College London

'Dismal science' seeks fresh thinking after failure in crisis

Claire Jones, Economics reporter NOVEMBER 11 2013

A humbler, more empirical and more topical study of economics must emerge from the financial crisis if the subject is to serve its students well, top academics and policy makers said on Monday.

The reputation of the "dismal science" has taken a bruising for its failure to predict – or fully explain – the worst financial crash since the Great Depression. But it has also become more popular, with the number of students taking economics A level rising by 50 per cent since 2007.

Professors, students, officials and commentators met at the Treasury in central London on Monday to lament the discipline's failings and swap ideas on how to restore its standing as part of a project run by the Institute of New Economic Thinking. The think-tank is backed by luminaries including George Soros, the financier, and Paul Volcker, the former chair of the US Federal Reserve.

Wendy Carlin, professor of economics and macroeconomics at University College London, who is directing the project, said students had become "disenchanted" and lecturers "embarrassed" by the way economics is taught.

Ms Carlin said economics students needed to become "much more independent thinkers and communicators" and that, at the moment, they instead felt "disempowered". Despite the crisis underlining the subject's flaws, she also spoke of "huge inertia" when it came to reforming undergraduate teaching, adding that universities were loathe to change a curriculum which could be taught cheaply by any decently qualified economics doctorate.

Arjun Jayadev, of the Azim Premji University in Bangalore, highlighted a "huge" disconnect between "alive and on fire" public debates about India's economy and the "uninspiring" way that the subject was taught.

Martin Wolf, the FT's chief economics commentator, said the trend towards abstraction and mathematicisation in economics was a "Faustian bargain" which its practitioners had signed to lend the subject more intellectual clout. Unfortunately, it had proved to be a "pact with the devil" which meant macroeconomics had ignored finance; simplification has left students thinking we operate in a "barter system where money acts as a veil".

Juliet Schor, a professor at Boston College who wanted a far greater role for teaching undergraduates how environmental change affects economies, took aim at the root of the discipline, saying she was "not a believer that the standard concepts are fine" and that the whole of macroeconomics was built around one model. "And it's not a good model," she said.

Tim Harford, the FT's undercover economist, said it was not so much a case of the sum of economic knowledge proving irrelevant but that people did not know when to apply it, or how to adapt it to reality.

"We knew [asset-price] bubbles burst," Mr Harford said. "The real world details matter. And they're a cause of constant surprise." But Mr Harford questioned how easily the complexities of the real world could be taught. "All this stuff is deliciously messy."

John Cassidy, staff writer at the New Yorker, stressed the need for humility after the hubris of recent decades, which saw Nobel laureate Robert Lucas claim the central problem of macroeconomics – depression-prevention – had been solved.

Andy Haldane, executive director for financial stability at the Bank of England, said that while theories in recent decades had relied on laws and deduction, there would be a greater role for uncertainty and learning from experience in the years ahead.

"The problem is not so much that economists have envied physicists, but they've picked the wrong type of physics," Mr Haldane said. "Physics has moved on – it now takes uncertainty more seriously."

The years ahead were, he said, a "tremendous opportunity" to make economics "more exciting and relevant".

A formula for teaching economics

There was a time when any self-respecting economics undergraduate could distinguish between neo-Keynesian, new-Keynesian and post-Keynesian thinking; they would write essays on the difference between Marxist and monetarist policies; and they would have to know how classical economists, such as Adam Smith, influenced the neoclassical school and how new classical economics developed subsequently in the 1970s, **writes Chris Giles, Economics Editor**.

Economics teaching was about understanding the way the world worked; how the discipline had changed; and how to make the world a better place.

When Gordon Brown called in 1994 for greater use of post neoclassical endogenous growth theory in policy, for example, many economics graduates would have known what he meant, even if they sniggered at his language.

But that was before mathematical models came to dominate economics degrees in the 1990s, replacing critical evaluation and the study of economic thought.

Postwar economic teaching started with Keynes and the attempt by the neoclassical school to underpin his thinking with more rigorous foundations. But inflation's rise in the 1960s destroyed this intellectual endeavour.

There was then a period of battles between the new classicists, who liked to view the world as always in equilibrium, and the new Keynesians, who tried to find rigorous foundations for Keynesian phenomena. In the former model, people were unemployed by choice; this was not the case in the latter.

But both were based on similar mathematical frameworks, which students had to learn, that took no account of banking or finance and often did not feature people. New Keynesian ideas became the mainstream in the profession.

Making these models seem relevant became impossible when the great recession blew apart any sense they were even approximate representations of reality. Economic thinking and teaching was thrown into flux.

While the old ways do not feel sufficiently scientific to many economists, other university teachers sense there is little merit in making students rote-learn the more recent discredited models. The new thought is a return to the past: less maths and more history of economic thought might make for more enthusiastic and useful graduates.