Keynes’s new heirs

Britain leads a global push to rethink the way economics is taught

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For economists 2008 was a nightmare. The people who teach and research the discipline mocked by Thomas Carlyle, a 19th-century polemicist, as “the dismal science”, not only failed to spot the precipice, many forecast exactly the opposite—a tranquil stability they called the “great moderation”. While the global economy is slowly healing, the subject is still in a state of flux, with students eager to learn what went wrong, but frustrated by what they are taught. Some bold new projects to retune economics aim to change this.

Britain has form here. In the early 1930s economics was in a terrible state. The global economy was stuck in a rut, and economists could not explain why. Two Britons changed things. In 1933, John Maynard Keynes, an economist at Cambridge University, supplied the raw ingredients: a new theory that explained how deficient demand could lead to persistent recessions and long-term unemployment. The ideas were radical but technical. They really took off when John Hicks, then also at Cambridge, distilled Keynes’s ideas into a simple model which quickly became the backbone of undergraduate teaching.

Now that the conditions for change are ripe again, Britain is well placed to take a lead. For a start there is fresh blood coming into the subject. The numbers taking economics A-level—over 26,000 in June 2013—are at an all-time high. Many university students, however, are disappointed by what follows. At Manchester University, a student society has been set up to challenge the current syllabus. Among the demands are fewer lectures bogged down in detailed maths, and more time discussing important historical thinkers.

This is not just student grumbling. Many tutors bemoan the fact that the history of economic thought is now rarely taught. This does not mean a shift left to Karl Marx’s communism or right to Friedrich Hayek’s libertarianism, but equipping students with the tools to use historical thinkers as a source of new ideas.

To see why this matters, take banking. Irving Fisher and Milton Friedman were both sceptical of fractional reserve banking (the fact that banks’ deposits are turned into loans, not safe assets) and wrote about it extensively. For the few who knew about them, their proposals were helpful in designing the “ring-fence” being used to protect retail deposits today. If more regulators had been taught about their work at university perhaps the idea would have come before the crash, rather than after it.

It is not just students who are dissatisfied with economics. Professional economists can spot easy wins too. Many think economic history should be more widely taught, citing the fact that Ben Bernanke’s Federal Reserve, influenced by his knowledge of the Great Depression and of Japan’s slump in the 1990s, outperformed rich-world peers. It is not merely American financial history that matters, either. Stanley Fischer, governor of Israel’s central bank between 2005 and 2013, says he found economic history (including Walter Bagehot’s famous rule—to provide generous amounts of cash to troubled banks, but to charge them for it)
useful in combating the 2008 crisis. This material had long fallen off the syllabus in most universities before the crash.

A new group of teachers is now listening. Led by Wendy Carlin, an economist at University College London, they are designing a new university-level curriculum. The project, which aims to launch for the 2014-15 academic year, will change things in a number of ways. Students’ views are being heeded, with outfits like Rethinking Economics, a London-based student outfit, given the chance to comment on the new curriculum. It is also plugged in to the world of policy. A conference to launch Ms Carlin’s project, held on November 11th, was held at HM Treasury, and included economists from the Bank of England.

From Bloomsbury to Bangalore

It will also be more international. Before the crash, students could graduate with little knowledge of any economy other than America’s. The academic contributors to Ms Carlin’s project are spread across nine countries, including emerging markets like Chile, Colombia, India and Russia. They have learned Hicks’s lesson on presentation, with smart-looking online materials being designed by Azim Premji University in Bangalore. No one following the course will have to buy expensive books: the materials will be distributed to university departments without charge.

All this is possible because of another big change in British economics. Ever since Britain’s post-Keynesian heyday in the 1950s a steady stream of economists have moved to America, in part tempted by the higher salaries there. But the cash constraint is easing as hedge funds pump cash into the subject. Brevan Howard, a hedge fund with assets of $40 billion, has founded a new financial stability research centre at Imperial College. On November 11th it announced that Franklin Allen and Douglas Gale, professors at Wharton Business School and New York University respectively, will be co-heads. The brain drain may be starting to reverse.

Ms Carlin’s project has benefited from hedge fund money too, with cash coming from the Institute for New Economic Thinking (INET) a think-tank set up by George Soros, an investor, in 2009. INET now funds $4m in economics projects per year, including a new research centre at Oxford University. Keynes too was an active investor who thought the role of economics was to protect the good things in life—music, art and intellectual life. He would have thoroughly approved.