Saving Economics from Disgrace

** Ketan K. Shah*

Abstract

This short article argued that economics is a wonderful dynamic subject which has undergone a metamorphosis in its themes and method of inquiry. But presently, it has come under attack for its failure to satisfactorily explain the financial crises episodes that have now become a rule rather than an exception. The article tried to provide an intellectual wall of defense against the disgrace it faces from the public. It traced a very brief evolution of economics from classical political economy to the highly mathematical form it has taken today. It contended that the subject has done quite well to respond to the changing realities, but at the same time, suggested that a lot needs to be changed and adopted if Economics is to justify its title of 'Queen of Social Sciences' both in spirit and letter. In this direction, some suggestions were forwarded in the paper.

Keywords : **economics, financial crises, financialisation, heterodox economics, mathematical economics, social science**

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The reputation of Economics as a problem solving social science has been at stake since the onset of the global financial crisis in 2008. Many questions are being raised and many fingers are being pointed out at the potential of the subject to explain, least predict, the recent happenings in the world economy, particularly the crises episodes which the subject does not deal with satisfactorily. The height of this dissatisfaction with the subject surfaced when the Queen Elizabeth asked economists during a briefing at the London School of Economics: "Why did no one see it coming?" (Giles, 2008). She was baffled by the crisis as her own fortune is estimated to have fallen by 25 million GBP due to the credit crunch. Her frustration at the subject and her now epochal remark sent the professionals of economics in hair scratching and soul searching exercise. Financial crises are now becoming a rule and a norm rather than an exception.

Economics is a wonderful subject which offers a lot of challenges and zing. No other subject has undergone a kind of metamorphosis in all its aspects as has Economics. Starting as a study in classical political economy in 1800s concerned with the production and distribution of wealth, over a period of more than 250 years, it has encompassed in its realm the study of business cycles, growth and development, inflation, inequalities, environment, and almost everything that affects the economy. Topics as diverse as crime and robbery, marriage, and sports have been well tackled by it. As the terrain on which the profession was being practiced changed, so did the themes of its study. Many different schools of thought have emerged trying to explain one or the other phenomenon or to refute some line of thinking and advancing its own.

Economics as an Evolving Subject

Economics is evolving in the sense that it is making a sincere attempt to explain the changes taking place in the

* *Associate Professor,* New L J Commerce College, Near Sarkhej Circle, S. G. Road, Ahmedabad -382 210, Gujarat.
E-mail : kkseconomics@yahoo.com

economy and accommodate whatever new is happening in the real world, whether these are technological changes or financial innovations which impact the way economies function. It is trying to bridge the gap between theory and practice. It has been doing so for quite a long time. And in this effort, it has adopted all the necessary tools, methods, methodologies, and whatever from wherever that helps it achieve the intellectual goal of search for the truth. All these changing strands explain the dynamism of the subject to respond to the changes in the world in which humans live. This is sufficient to prove that this magnificent subject has a connection with the society happenings therein and aims to improve its functioning.

There was a change in the methods of study along with the changing themes that occupied the center stage of the profession. In its initial stage, it depended more on the use of logic and deduction, borrowing heavily from philosophy. Since 1940s, mathematics came to be used to support theoretical arguments. Initially, the use of mathematics was more limited to measurement and later modeling became more important, which uses advanced mathematical tools. An attempt was being made to establish economics firmly as a science akin to pure sciences, at least in its use of methods and methodology. Such an attempt started way back in the late nineteenth century with the marginal revolution in the subject. Marginalists tried to build a single unified model and then theorize on its basis to explain the way economic agents (buyers, sellers, and investors) behave in the market place. This school of thought emulated the Newtonian model of quantum mechanics in its approach to the scientific inquiry about economic agents' behavior. Insights and conclusions derived by the marginal school later came to be applied to collective behavior as well, that is, to understand the macro economy. The extension was so intense that it led to a debate and discussion about the feasibility of providing micro foundations to macro economics.

Post 1960s, the use of mathematics expanded exponentially, making economics more mathematical and less a social science. The trend continues to this date and the situation has come to a point where engineering - type and space - research related mathematics is being applied in economics, making one wonder what subject is being dealt with. For anyone who lacks a basic and intermediate level understanding of mathematics and statistics, the subject would be as good as Greek or Latin.

The recent dissatisfaction with the subject for having utterly failed to explain, least predict, the episodes of financial crises, which are becoming more frequent, stems from the fact that wrong type of economics is being used to analyze the emerging situations. We are committing a folly of using the old, and so the wrong lens, to view the new emerging economic reality.

What Needs to be Done to Make Economics more Realistic?

First and foremost is the problem of reluctance to move away from the mechanistic view of mainstream economics also known as the neoclassical school. Nor is the profession ready, for a variety of reasons, to accommodate large-heartedly new emerging ideas in the form of new schools of thought. Heterodox economics is a case in point; it lays stress in accommodating everything from as diverse fields as anthropology, which are helpful in understanding certain economic phenomena. However, mainstream economics is not yet ready to accommodate it in its fold. All diverse schools of thought that have something to contribute concretely should be provided a forum and the necessary support to present its work through the podium of mainstream economics. Adoption of multi-disciplinary approach in analyzing economic phenomena will remove its biggest limitation of not adopting the holistic method of analysis.

The subject has also failed to bring about a change in its method of inquiry. The kind of mathematics that has been used in the subject has not changed since a century despite the fact that there has been a sea change in the nature of mathematics deployed in Physics from which and on the basis of which economic models were built. With the passing of time, mathematics has come to dominate over the core economic content in such a way that subject matter and the conclusions of many papers that are published in economics research journals and elsewhere have gone beyond the understanding of the people belonging to this profession, not to speak of others.

The reason being quite obvious : the use of advanced-level mathematics that only a handful of few can understand. Same is true of the papers that are read in conferences and seminars. It is worth quoting here Alfred Marshall's views on the use of mathematics in Economics. It needs to be mentioned that although he was the one responsible for taking economics to a more mathematically rigorous level, he never wanted mathematics to overshadow economics. He knew very well that if this is ever to happen, then the subject would become irrelevant for the layman. In his own books, he used mathematics in the footnotes and in the appendices so that the content remains relevant for a layman.

What should be the place of mathematics in economics has been excellently explained by Marshall in his letter to A. L. Bowley wherein he defines the following system in six steps (Dimand, 2007) :

(1) Use mathematics as shorthand language, rather than as an engine of inquiry,

(2) Keep to them till you have done,

(3) Translate into English,

(4) Then illustrate by examples that are important in real life,

(5) Burn the mathematics,

(6) If you can't succeed in 4, burn 3.

The message is quite clear - that one should resort to mathematics only when necessary and whenever one does mathematics, he/she should try to translate it into prose that is understandable by all. If one keeps in mind this strong message and does the economics, it is beyond doubt that once again the laymen will be able to connect themselves to the subject. A kind of story-telling approach is needed to explain economics to one and all. Many papers that get published in economics research journals are beyond the understanding of the people belonging to this profession, not to speak of others. The reason being quite obvious: the use of advanced-level mathematics that only a handful of few can understand. Same is true of the papers that are read in conferences and seminars. It is a high time that to make our subject relevant and popular, we must make a transition from the technicalities of mathematics to practicalities of prose.

Microeconomic theory can be enriched by adding insights from behavioral economics, which endorses the fact that human beings are not merely robots programmed to make rational choices always using their brains as accurately as super computers, but are a bundle of emotions and their decisions are irrational many times driven more by feelings of fear, greed, and love. Neuroeconomics is an emerging branch in this direction. Behavioral economics has already made great advances, but is still not taught as a full-fledged subject in many universities.

If there has been financialization of economies, then there has got to be financialization of macroeconomics as well. Macroeconomics needs to take into account theories explaining interdependency between financial and real sectors. Theories prominently taught today, drawn from Classical to New Keynesian schools, fail to account for the process of increasing financialization of economies. One needs to look to alternative theories, which include the link between real and financial sectors. Here, one can mention debt - deflation theory developed by Irving Fisher in 1933 (Fisher, 1933), Hyman Minsky's financial instability hypothesis (Keen, 1995), and concept of financial accelerator (Bernanke, Gertler, & Gilchrist, 1996), etc.

In the realm of development economics, adequate attention needs to be paid to theories that allow for considering institutional factors like governance and political systems that exert significant influence on the growth process.

Conclusion and Practical Implications

Over the last few decades, economics has been made more technical due to unwarranted mathematization, and at

the same time, has delinked from social realities of the time. All this was due to its adherence to a single methodology of inquiry based upon the analysis of human behavior in the tradition of neoclassical school of thought, also known as mainstream economics. This school assumes that human beings are rational, and like a computer, can make no mistake in choosing the alternative which best serves their goal, whether of maximizing utility as consumers or maximizing profits as producers. It forgets that human beings are also a bundle of feelings, and their decisions are guided by emotions like fear, greed, happiness, etc. This gross neglect of the other and at times more important aspects of human behavior can explain the failure of the discipline to predict many abnormal events, mainly financial crises. This school also miserably attempted to make Economics as good as a pure science like Physics and in the process, it neglected many other disciplines from which it could have borrowed multiple insights of human behavior to enrich itself in order to understand it in totality.

What is now required is to broaden the framework of economics pedagogy and allow for pluralist methods and encourage interdisciplinary research. Only then this 'Queen of Social Sciences' will become not only light-bearing but also fruit-bearing in the true sense of the term.

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