

# Journal of Economics

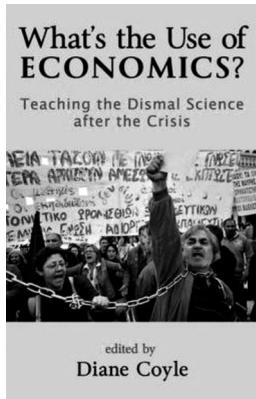
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WHAT'S THE USE OF  
ECONOMICS?  
TEACHING THE  
DISMAL SCIENCE AFTER  
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## WHAT'S THE USE OF ECONOMICS? TEACHING THE DISMAL SCIENCE AFTER THE CRISIS

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After being held up as the bright and scientific discipline among the social sciences, will economics fall into discredit and become again the "**dismal science**" (Carlyle 1848)? This question arises from the fierce debates regarding the degree of usefulness of economics during the current financial and economic crisis.

In fact, economics cannot escape being harmed by the current financial and economic crisis (Davis 2012). To the famous question posed by the Queen of England during a visit to the London School of Economics, "**[w]hy have economists failed to predict the financial crisis?**", Robert Lucas answered that "*the inability to predict a financial crisis is in fact a prediction of economic theory because economics does not make previsions*" (quoted by Kay 2009). Even if Robert Lucas has merely asserted an opinion that is an implication of Eugene Fama's "*efficient-market hypothesis*" (Ravij 2012), his answer is mischievous and arrogant.

From the doubts and challenges occasioned by the crisis at least one certitude has emerged. If economics wants to train economists who are useful to the society and together can make some forecasts or at least issue warnings to decisions-makers, a radical reform of the teaching of economics is needed. This is a major conclusion of the conference organized recently by the British government and mobilising about twenty specialists. Their contributions have been published and edited by Diana Coyle, a former advisor to the UK Treasury and currently heading the consultancy "**Enlightenment Economics**". The analyses carried out in this book should drive universities to reflect critically on their own practice, asking themselves which sort of economics should be taught and how to teach it.

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NEEDS OF  
EMPLOYERS

The first claim put to the conference - raised first by Dave Ramsden, chief economist of the British Ministry of Finance-is that the skill set of economists who have graduated recently from universities does not fit very well with the needs of government and public administration, the major employer of economists (and they do not fit very well with the needs of the private sector either).

The orthodox teaching of economics seems to be directed towards reproducing the mind-set of the academicians, so that the investment in learning that the academicians have made in their own learning is justified. With their teachers' mind-set, the graduates will feel comfortable only in departments of economics like those from which they emerge. The fresh graduates are not well-enough immersed in economic realities and policies. They are too specialized and not well-enough equipped with a large array of analytical tools. They have a very partial view and understanding of the economic discipline. Students need to be taught more about economic history and the history of economic thought. Moreover, they should study more intensively and deeply business and economic situations, economic institutions, operations of actual markets and current public policies. In these fields they have to be aware of past and contemporary debates and controversies. Moreover, they should be initiated into an understanding of other disciplines within the social sciences, in particular sociology, political sciences and history, and philosophy. In general, employers want more open-minded graduates with a solid and broad knowledge of economics and related disciplines, asserting that professional skills and specialities are best acquired on the job.

Another and altogether surprising concern raised at the conference had to do with communication skills. It was emphasized that a great deal of what economists do is writing reports, making syntheses, and drawing up recommendations, as well as presenting those results to a non-specialist public. Students are ill-prepared in the required written and oral communication skills.

## ECONOMIC METHOD AND PEDAGOGY

The second question is concerned with the way the crisis has given urgency to the need to deal with some questions or doubts about economic methodology and pedagogy.

Complementary with the earlier observations, there is a widespread complaint that teaching and learning economics is widely disconnected from economic, social and political realities. Stephen King, Group Chief Economist of HSBC, reports that most recent university graduates did not spend time in lectures, seminars or readings on the current financial crisis.

A number of the participants in the seminar expressed concerns about the emphasis on deductive rather than inductive thinking in economics, and about the use of mathematics without meaning. In this context, as Paul Anand and Jonathan Leape put it, there is a need to introduce more applications and more practical training. Andrew Lo of MIT argued that mathematical techniques in economics only gain meaning from application to actual empirical questions and should be taught in that context. Paul Seabright of the Toulouse School of Economics said that students must be taught that knowledge is not given once and for all but rather is generated through empirical investigation and therefore is always evolving, so much so that economists should be much less arrogant. As Andrew Lo expressed it: *"[w]e, economists, wish to explain 99% of all observable phenomena using three simple laws, like physicists do; but we have to settle instead for ninety-nine laws that explain only 3%, which is terribly frustrating."* (quoted in Coyle 2012).

## WHAT TO DO AND WHAT TO TEACH?

Three domains stand out from the conference.

### **The research-teaching nexus**

Michael MacMahon suggested that it is necessary to balance better the activities of research and of teaching, by reducing the importance of research in the career evaluation of professors and to revalue teaching. As I will suggest below, this legitimate recommendation requires the development of didactics in universities.

### **Application**

Paul Anand and Jonathan Leape advocated the teaching of applied economics. For them there is considerable interest in developing training around the application of economic theory. Models should be used not as ends in themselves but as starting points for serious empirical analysis. Students should be taught to carry out surveys and to gather data and interpret them, instead of being over-trained in advanced econometric methods.

### **Interdisciplinary knowledge**

With others, Paul Anand and Jonathan Leape advocated also the delivering of interdisciplinary knowledge as exemplified by the course 100 of the London School of Economics (LSE 100). This they represented as “*an innovative course that introduces first year undergraduates to the fundamental elements of thinking like a social scientist and bringing a range of perspectives from across the social sciences*”. This would contribute to preparing smarter and more open-minded students.

### **Revision of macro economics**

The economic crisis has brought into question the way macroeconomics is taught and its relative importance in the curriculum. The conference was influenced by the fierce debates provoked by the crisis among great contemporary economists (among them Krugman versus Lucas).

On one side are economists such as Benjamin Friedman from Harvard who described pre-crisis macro as “*wrongheaded*”. Andrew Haldane of the Bank of England described representative agent models with expectations as “*fundamentally ill-suited*” to today’s worlds. Macroeconomics as repeated in textbooks from generation to generation is a dismissal science. As Paul Krugman and Joseph Stiglitz said elsewhere, macroeconomics that is taught is an education that made economists incapable of conducting sensible economic policy. This position was the prevalent tone of the conference.

On the opposite side there are economists such as Paul Ormerod who presented his position at the conference. He followed the statement made by Robert Lucas in *The Economist*, in which Lucas vilifies the prophets of a dismissal science (Lucas 2009a; Lucas 2009b). For Lucas, macroeconomics and financial economics “*were dominated by the views of people who have seized on the crisis as an opportunity to restate criticisms they had voiced long before 2008*”. He stated that those criticisms were caricatures of the state of macroeconomics. Lucas aimed in particular at Paul Krugman and Joseph Stiglitz, pleading that they were not well-inspired in caricaturing macroeconomists as a lost generation educated in the use of valueless, even harmful simplistic mathematical models. As Diana Coyle concluded wisely: “*it would take someone who is either very confident or very complacent not to reflect some of these doubts in what they teach the next generations of economists*” (Coyle 2012).

IS THIS DIAGNOSIS  
RIGHT AND FAIR FOR  
THE ECONOMIC  
DISCIPLINE AND  
TEACHING ECONOMICS?

This book is very useful in questioning the general inclination of teaching institutions to teach the usual stuff without second thoughts. As there is a quite widespread belief that the truth is what the majority believes, the world's fashion is to teach the same truth, that is the same economics, everywhere and every time. There is no room left either in the classroom or in economics journals for other views and confronting viewpoints; there is no reward or stimulus to venture out of the mainstream. In the face of this profound challenge, however, the solutions proposed in this book seem quite weak.

Criticism of universities for delivering too theoretical a teaching disconnected from realities is a recurrent complaint from governments and employers. The plea for more pragmatism, empiricism and policy-oriented perspective seems to have been shared by a majority of participants in the conference. This plea can be very useful in leading to good pedagogy in the form of more application and policy-driven teaching. However, it can be interpreted otherwise, as affirming that the purpose of academic teaching is mainly or exclusively to prepare students for jobs. This is the general understanding of "*vocationalism*", in which education has to do nothing more and nothing less than to be vocational in the sense of preparing students to the brave world of work. There is no doubt that reality, practice and experience must feed teaching; but the purpose should be academic instead of merely professional (*Mounier and Tangchuang 2010*). The purpose of education is in disseminating knowledge and forging cognitive skills which are the capacity of understanding and of giving meanings (*Schulman 1999; Bruner 1990; Schulman 2004*). Hopefully some of the participants in the conference-employers and academics alike-agree-with this purpose of education, particularly in so far as they find it useful to teach more economic history and history of economic thought.

The suggestion of rethinking the relations between research and teaching should be much better elaborated for both students and professors. In fact, research and teaching are the two faces of the same coin; they nurture each other and both involve the same cognitive process. Rethinking the relations between research and teaching has occurred during the last two decades under the rubric of the "*research-teaching nexus*". It has undertaken comprehensive field surveys to collect major practices (*Consortium of Australian Universities. 2008; Trowler, Paul, and Terry Wareham. 2008*), and mobilised cognitive sciences (*Anderson 1983; Wertsch 1985; Bruner 1990; Giordan and Girault. 1996; Reisberg 1997*). Those explorations of the teaching-learning process have contributed to the development of didactics, which is the "*science(s) of the teaching profession*" (*Hudson et al. 1999*), because didactics establishes the relationships between

curricula, contents of disciplines and pedagogy. It is curious to see that didactics is absent from England and more generally the Anglo-Saxon world (*Hamilton, David 1999*). In fact, didactics should occupy a much greater place in research programmes in all universities, as it can contribute to increasing the quality of teaching across the board (*Mounier and Tangchuang 2010*).

By the same token, the major debate about macroeconomics merits much greater elaboration. The controversy between Lucas and Krugman-Stiglitz is something not at all unusual in economics (*Rothbard 2011*). In the history of economic thought one can recall some famous and recurrent debates: in the nineteen century the famous plea of Ricardo against protectionists (the Corn Laws) and of Marginalism against Marxism; in the 1950's the fight of Prebisch and Singer from ECLA against Viner on the strategy of economic development (hampered versus transmitted growth), and the following opposed paradigms in development economics (*Hunt 1989*); the fierce controversy in the 1960's between Cambridge England and Cambridge Massachusetts on the respective roles of investment and technological change in economic growth (*Harcourt 1972*); more generally the strong contemporary opposition between schools of economic thought-Keynesians, Monetarists and Neoclassic macroeconomics (*Chrystal 1983; Fullbrook 2006*); advocates and detractors of globalisation exemplified by the polemic between Krugman and Thurow in the 1990's; the endless conflict between partisans and foes of the intervention of the state in the economy (*Evans et al 1985; Reiner 1999; Tabellini 2004*); the permanent polemic about measurement, and roles of formalization and econometrics (*Morse 2004; Lemer 2009*); and eventually the current debate-mirrored in Diana Coyle's book-on the cause of the world economic crisis opposing partisans of total liberalisation of capital markets (*Mac Kinnon 1991; Eichengreen et al. 1999*) and partisans of regulation of international capital flows and of capitalism (*Tobin 1978; Stiglitz 2000; Eliot 2012; Bellamy Foster and McChesney. 2012*).

In each period, theoretical and policy-related debates extended to the nature of economics, casting a doubt on its scientific character (*Mankiw 2006*). Often untruths conflict with truths not on scientific bases but on ideological ones. In his blog dated 9 of January 2012 titled "*Mistakes and Ideology in Macroeconomics*", Oxford University Professor Simon Wren-Lewis shows that even Nobel Prize economists such as Robert Lucas and renowned economists such as John Cochrane make mistakes based on their ideology: "*The problem too many macroeconomists have with fiscal stimulus lies not in opposing schools of thought, or the validity of particular theories, or the size of particular parameters, but instead with the fact that it represents intervention by the state designed to*

*improve the working of the market economy. They have an ideological problem with countercyclical fiscal policy... In short, an ideological view that distorts economic thinking can lead to mistakes".*

In a nutshell, my concluding remark is that, all over the world, improving the teaching of economics requires much more insight and boldness than proposed in the book. At least, a bunch of tightly related reforms must be undertaken right away: boosting didactical research, enlarging scholarship and forging smarter minds by focusing on controversies rather than sticking to dry models and to a single dogma (ideology) as in today's mainstream economics. Those are drastic but necessary conditions for improving significantly the quality of economic studies.

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