Professor Dr. P. Hennipman

LECTURES IN ECONOMICS 5

Theory, Institutions, Policy

AMONG ECONOMISTS

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Reflections of a Neo-Classical Post Keynesian

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Chapter I

A QUARRELSOME LOT?

Most economists have regular jobs that keep them off the streets. They sit in offices and maximize unknown utilities; their own or somebody else's. The utilities are unknown, probably to those who maximize them and certainly to outside observers. One thing we know for certain is that the economists turn inputs into outputs. They transform more or less raw data into cooked data, cooked data into information, and information into knowledge. Sometimes they turn knowledge into wisdom. They supply the results of their efforts to other people, perhaps also economists, who sit in offices too. Some of the users are decision-makers, among them a number of professional economists. The whole process takes place within government agencies, industries, banks, insurance companies, trade unions, international organizations. Some of these economists – they are nearly all men, nothwithstanding the existence of Alice Rivlin – call themselves managers, or executives, or consultants, or research workers, or bookkeepers. Only a few of them have read Jan Kregel's *The Reconstruction of Political Economy* (London, 1973), which is a pity, for this book stimulates the mind, and none has read Piero Sraffa's *Production of Commodities By Means of Commodities* (Cambridge, 1960). They regard themselves as experts: cool, technology-oriented people. They manufacture an intermediate product that for the greater part does not leave the organization.

These employees are part of the corporate culture. Though the corporation is not necessarily a model of radiant harmony, most economists would describe their various activities as essentially peaceful. It is a part of their expertise to find reasonable solutions for conflicting aims, on the basis of the best possible factual information. They determine the restrictions and conditions that limit the possibilities of attaining given objectives. They seek the optimum policy mix. Rationality is their guiding light. If a person were to ask: 'Are you a member of that quarrelsome profession?', the question would encounter a certain surprise: 'Who, me? Aren't you confusing me with somebody else?'

And indeed another subculture of economists does exist. They maximize their utilities by operating in the political arena. They advise politicians, or they are professional politicians themselves. They also belong to the knowledge industry, but they produce a collective good, or bad, according to the consumers' tastes. They voice ideas on public issues, and public issues are controversial issues. This is, of course, particularly true of economic policy, where interests clash. The voices ring loud, though not always clear. They are busily outwitting each other.

These economists mingle with journalists, and some behave like journalists themselves, for they write in magazines and newspapers. They appear on television and comment on government policy. These comments are mainly critical, which is the normal state of affairs in a democracy, though some economists support the government and justify what it is doing. That means that they tend to describe the current situation as rather satisfactory, whereas other observers perceive misery and doom. All this creates an atmosphere of dissent and strife. Economics is a house divided.

Now it might be argued that these political economists are not scientists, but citizens. Citizens disagree in their capacity of farmers, taxpayers, trade unionists, businessmen, socialists, neo-conservatives. Economists defend the interests of these groups, for whatever reason: their parents are farmers, their wives are in business, they are taxpayers or conservatives themselves, or they are paid for their opinions. The argument is perfectly correct. Nevertheless, the distinction between the professional economist and the citizen is beset with difficulties. For economics is what economists do, and some members of the profession proffer their advice subtly disguised as scientific commentary, without overt policy conclusions. The most effective rhetoric leaves its conclusions to the listener. The confusion is confounded by the fact that politicians have an understandable habit of quoting those economists whose ideas are in line with theirs, thereby stressing the fact, disputable as it may be, that their own views are supported by economic theory. In this way even the more or less distant scientists are drawn into the citizens' battle.

This brings us to a third subculture: the academic community of disinterested scholars and teachers. They see themselves as economic scientists or economists in the strict sense. They produce books and articles. The teachers teach what the scholars have thought up. Now here we encounter a contradiction. The scholars are said to disagree. They are divided into schools, combating each other on first principles, models, research results, methodology, relevance, whatever. But the textbooks display a surprising degree of similarity. True, they change over the years – they grow fatter, they contain new chapters (market disequilibrium is a recent addition), more coloured graphs and recently illustrations too; but at a given moment in time the substance of the textbooks is rather homogeneous (1).

This means that all professional economists of a given vintage have been brought up along the same lines. They all know their micro-economics, macro-economics, general equilibrium theory, theory of international trade. There is a large corpus of received doctrine. It has been called the Neo-Classical Neo-Keynesian Synthesis. Economists use a common language, full of supply and demand, elasticities, consumption functions, investment functions, dynamically stable or unstable equilibria, comparative costs. These textbooks are synthetic, or eclectic, or instrumental. They represent a mainstream – so much so that various minorities like Marxists, institutionalists, adherents of the New Right speak disapprovingly of the Dominating Paradigm. Obviously, there is more conformity within the profession than the gloomy diagnosis which says that economists never agree on anything would have it. We have a paradox here, and one of the minor goals of this essay is to solve it.

Now the truth-seeking scholars follow a hybrid vocation as well. It cannot be denied that many of them do research in a field where a consensus is obvious. Those applying linear algebra, topology and other modern techniques to economic problems are a tranquil lot. Their work is far from the madding crowd. It is also true that an economist may well write about the relation between economic theory and economic policy without losing his detached scientific attitude. The proof of this possibility is furnished by the work of Pieter Hennipman (2), who stresses Weber's dictum that economic theory can never make policy recommendations, but who also says (translation from the Dutch): 'It is nevertheless indisputably so that economics owes its growth to its present position largely to the endeavour to improve economic policy. The questions that arise here have always been a challenge and a wellspring, a touchstone for its capabilities and a mirror held up to its results' (p. 20). Hennipman constantly emphasizes that there is no such thing as a 'correct economic policy', or 'economic objectives'. Science and policy must be sharply segregated, but theory must definitely be relevant to policy, if at all possible. This point of view is endorsed in the following.

But other scientists are sometimes difficult to tell apart from ordinary citizens with outspoken preferences for right and wrong. They consider it part of their calling to explain some kind of Good Society to their contemporaries. The Nobel prize does not serve as a criterion for distinguishing the political from the non-political scholars: Koopmans, Arrow and Debreu do not join in the debate between the citizens, but Tinbergen, Friedman, Meade and Stigler do. The influence of the latter group on political thought and action is considerable, though Stigler himself tends to deny this. The trouble is, of course, that this influence works in rather different directions (3). This suggests that the true source of strife between economists is politics, not economics. If this were the case, our view of the profession would be greatly simplified. Unfortunately, things are not that simple. Surely the economics of Meade and Tinbergen on the one hand and of Friedman and Stigler on the other are different (4).

That this is so is best illustrated by the books that such authors publish on their view of society. These are only rarely genuine political tracts – Milton Friedman's *Free to Choose* (New York, 1980) is an exception. An erudite work like J.E. Meade's *Stagnation, Volume I: Wage Fixing* (London, 1982), despite its academic nature, contains a certain view on the economic *ensemble,* which almost automatically leads to the conclusion that free wage determination fits badly into a society pursuing full employment. This political opinion fits in with a coherent whole. And even Kenneth Arrow's work (*Social Choice and Individual Values,* New York, 1951) has a certain relevance to our view of democratic policy, i.e. to the effectiveness of voting procedures. Theoretical economics almost always has an influence on our view of society's functioning and vice versa. I shall argue below that this is a good thing – a genuine economist combines knowledge of abstract eonomics with a sense of relative values and a feeling for politics. The Good, the True and the Beautiful accompany us at all times. Perhaps economics is in fact a Moral Science? My answer, which I do not want to impose on the reader, is: yes. As a result of this disagreement creeps in and the question is how such moral differences of opinion can be localized and assessed. To what extent can we decide who is right? The very unsatisfactory answer is: in many cases we cannot.

Yet the idea that economists quarrel on every conceivable occasion is a popular misunderstanding. It is the direct result of another misunderstanding, namely that the intention of economics is to give good advice. An economist is someone who tells someone else what to do. This is not so, but the idea is encouraged by many members of the profession and above all by their use of language. The terminology suggests that economists know what is good for people: optimum choice, rational behaviour, maximum satisfaction, efficient allocation, optimum mix of policy instruments. This terminology occurs not only in corporate culture and political culture, but also among the disinterested scholars. That gives the profession a certain prestige, just like that enjoyed by doctors and ministers of religion. Unfortunately, that prestige is shaky. It can easily reverse itself, namely when things are going badly and economists get the blame. The 'economic crisis' is often nothing else but the usual old recession or the usual old depression, with its unemployment, its bankruptcies and its frightening budgetary deficits. The misunderstanding that economists have nothing better to do than give firm recommendations must be contested in any account of the profession, and this essay is no exception to that rule (and still, I hope that you will ask: does the author believe that economics is a Moral Science?)

Incidentally, there is no clear-cut distinction between laymen and professional economists. For that too is characteristic of the culture of economics: everybody gets in on the act, it's a free-for-all. The experts are distinguished by their academic degree, although that's not certain either: one of the first two Nobel prize winners is not a graduate economist but a physicist; engineers have made a major contribution, especially in France; and on the Continent economists are often by origin lawyers. The laymen distinguish themselves by the fact that they make a number of systematic errors more frequently; for instance, they often believe that the vigorous pronouncement of a value judgment is enough to attain the desired goal, and economists are somewhat more cautious. Laymen also fall victim in many cases to the Fallacy of Composition – but professional economists too can make systematic mistakes, and I am not so sure that the rational expectations school is free from this particular fallacy. Personally I am not in favour of a clear-cut demarcation between professional and non-professional economists. I prefer a distinction between correct and incorrect statements.

This essay is mainly concerned with the question of what the mix is between agreement and disagreement in economics. I have the feeling that many disputes between economists are comparable to arguments between lawyers in a court case. These jurists defend opposite positions, but nobody will derive a fission in legal logic from their opposed pleadings. Their arguments – full of metaphors, rhetoric, references to accepted principles – are submitted to a judge who has to decide who is right and who is wrong.

Of course, that's what we need in science: a judge whose authority is accepted by all parties. The difficulty is that such an authority does not exist. Justice can be *done* – perhaps because it's so slippery. But truth has to be evident. Economics does in fact have its unshakable certainties, or something near enough to be regarded as unshakable. However, there are no real authorities. And even some certainties prove to be the subject of permanent debate. Now it tends to be a rhetorical custom to make an occasional appeal to some author or the other – 'Joan Robinson has proved that a heterogeneous stock of capital goods can be expressed numerically only by capitalizing the expected returns' – but such an appeal is a debater's artifice. The opposite party can point out that Joan Robinson has made mistakes before, just like Keynes himself, come to that, and that every business economist manages to value heterogeneous machines in terms of money and put them on the balance sheet. Appealing to authorities is often a sign of an unscientific mentality – Marxists do it, and that's a bad omen.

Efforts have been made (by Thomas Kuhn and others) to obviate this difficulty by assuming that there is such a thing as a scientific forum or an invisible college. These are thus the qualified scholars in a given professional field. If they agree on something, we have found the truth, be it provisionally. The idea is optimistic and inspired the foundation of the British Royal Society (originally called the invisible college). The difficulty is that these professional colleagues do not always agree with one another – and that is exactly the suspicion that falls on economists. An additional problem is that consensus does not necessarily beget the truth. There are collective misunderstandings that endure for a long time. For instance, the invisible college of economists maintained for generations that general overproduction was impossible; underspending would be excluded by the price mechanism, scarcity, Say's Law or whatever you want to call it. A healthy distrust of received opinions is to the critical scientist's credit. At least one trend-setting economist has acquired a certain fame by taking this distrust so far that he practically identifies Conventional Wisdom with collective stupidity.

But if we embrace the latter hypercritical view, we easily enter a state of general scepticism, in which every statement is left hanging in the air and we have to rely solely on our own logic. That makes too great a demand of our talent for improvisation. It is not efficient. After all, we've learnt all kinds of things and taken them for granted, and we have to use them too – otherwise life becomes extremely primitive. We believe in the multiplication tables and in the proposition that a permanent budgetary deficit amounting to a given fraction of national income z, at a given and constant growth rate y of national income, leads in the long run to a ratio between national debt and national income equal to z/y. That is unassailable. Propositions exist that have to be upheld, on pain of the verdict: 'that person's not right in the head'. Anyone who claims that two plus two is five is a joker, an interrogator out of Orwell's *Nineteen Eighty-four*, or should have his head examined. (Or he adheres to a deep philosophy which, however, is not recognized in the grocery store. Economics is a grocery store.)

The latter is perhaps not a bad definition of truth. Truth is what has to be endorsed by somebody who's right in the head. In economics truth is what has to be endorsed by a professional economist who's right in the head. I think that the body of statements that are covered by this definition in economics can boast a very considerable size. And that includes the authoritative nature of much that we have learnt, but also of what we have always known.

However, there are also statements, inside and outside economics, to which the criterion of truth hardly relates, if at all. In fact we see a whole scale. If somebody says: 'there are fifty people in this hall', it can be investigated whether that is correct. There may be doubt as to whether a certain object must be regarded as a person, or whether some have to be counted as two; there may be someone in a cupboard or sitting under a table – but a certain degree of agreement can be reached. Anyone who mentions a number that is very wide of the truth has made a wrong estimate and will, after some debate, certainly realize that. But if someone asserts: 'it would be much better if there were ten people here' we find ourselves at the other end of the scale. It is quite feasible to contradict such a statement, but not on the strength of its untruth. Value judgments are appealing or unappealing: they may be *highly* objectionable, but they cannot be falsified. Everyone is his own authority if it is the custom to appeal to authorities where normative statements are concerned. Value judgments are subject to what a methodological anarchist (Paul Feyerabend) once wrongly said about the scientific method: 'anything goes'.

Most economists accept that normative statements cannot be falsified. Nevertheless, a problem remains here for the convinced ethician. For such a person can maintain that normative statements of a decidedly bad or criminal nature can most definitely be subjected to the above criterion of untruth: 'anybody who says that is not right in the head'. This verdict is applicable if certain limits are exceeded. Anyone who believes that two plus two is five is making a joke or is crazy; the same applies to anyone who advocates that one can beat one's neighbour to death for the fun of it. And yet it's a different kind of joke and a different kind of craziness. 'Untrue' is not the same as 'bad', though it isn't easy to explain this difference exactly. Fortunately, this is hardly a consideration for economists. The normative statements that economists tend to make can be contradicted by others, or conjure up a feeling of antipathy, or even the verdict: 'anyone who contends that is an immoral person' – but they are not so extreme that one charges one's opponent with having lost his reason. It is my personal opinion that callousness towards people with very low incomes points to a pretty unattractive character, but I shan't regard someone who evinces that callousness as insane. Anyone who insists that two plus two is five incurs that suspicion.

The basis of this essay is that in economics there is a scale of statements with falsifiability as the criterion. We may say of some statements: that is very probably true, that is definitely not true; but that is difficult with other ones, and is out of the question with other statements again. It is my contention that we can have a better understanding of this scale by dividing these statements into seven categories. It may well be feasible to make a similar classification with more than seven categories, but I maintain that a smaller