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Taking On 'Rational Man'

By PETER MONAGHAN

How do you start a fire under a huge wet blanket? A faction of disgruntled economists says that is their predicament.

Their efforts to open the field to diverse views are smothered, they say, by an orthodoxy -- neoclassical economics and its derivatives -- that is indulgently theoretical and mathematical in its aspiration to be more "scientific" than any other social science.

Although it is inadequate to explain human behavior, they say, that brand of economics dominates the discipline. Its practitioners decide what work deserves notice by controlling what is published in the field's prestigious journals. And with strongholds at leading research universities and a Nobel awarded in the field, most mainstream economists are too proud of their profession to even notice these puny insurgents.

Many say that the rebels are challenging a straw man -- that neoclassical economics, which is based on such concepts as rational choice, the market, and economies' tendency to move toward equilibrium, is much roomier than portrayed. But others have a more belligerent response: Like us or leave us for other departments and disciplines, such as political science, history, or sociology.

This month, for example, the University of Notre Dame's economics department, long renowned as unusually diverse, is likely to split in two.

A new department of economics, with a graduate program and several new hires, would focus on orthodox approaches.

Dissident economists would be consigned to a department focusing on economic thought, social justice, and public policy. But with no graduate program, that would amount to exile and slow death, say the Marxist, labor, and development economists and historians of economic thought who make up a large minority of the 21-member department.

The "tensions" that are forcing the split, says a report by a committee of Notre Dame administrators and professors from other departments, "are not the fault of the current faculty" members. They were hired years ago, under "a clear mandate from the administration," to help build an alternative to the neoclassical bastions: Berkeley, Chicago, Columbia, Harvard, MIT,

Princeton, Yale.

It is not that Notre Dame wants to abandon the subjects that its heterodox researchers study, ones "appropriate to a Catholic institution," such as poverty and inequality, says Mark W. Roche, dean of the College of Arts and Letters. It is just, he says, that Notre Dame wants attention from the mainstream and realizes that that requires satisfying the field's "evaluative norms."

Moreover, says the committee's report, "We regard the differences between the heterodox and orthodox economists to be so great that reconciliation within a single cohesive department is wholly unrealistic."

Notre Dame, says David F. Ruccio, an associate professor who specializes in Latin American economies and exploring intersections of the humanities and economics, is "accepting and imposing a certain definition of the discipline." The partition would be a logical next step, he says. Heterodox practitioners have already been told not to expect promotions, and that their books, even if placed with prestigious publishers, will count no more toward advancement than articles in minor journals, he adds.

Administrators are not quite so categorical. Richard Jensen, the department's chairman, says "industry standards" dictate that publication in leading journals is the key to promotion and tenure.

The split, says Mr. Ruccio, a prominent Marxist economist, is a matter of raw power: "If the peasants won't deliver the goods, collectivize them" in a low-profile department.

Pros and Cons

Despite the power of the orthodoxy, the naysayers are numerous. While the American Economic Association has some 22,000 members, the 30-odd groups under the umbrella of the International Confederation of Associations for Pluralism in Economics have American memberships totaling more than 5,000.

The confederation's pained statement of purpose laments that most of its members' interests, such as exploitation and inequitable income distribution, have been "defined out" of economics. The field has gotten away with that, observers say, because it is not as inescapably concerned as, say, political science, sociology, and anthropology with concepts like power, influence, deference, and social practice.

"It's hard to avoid Marx, and a whole bunch of other theorists, in those discussions," says Michael A. Bernstein, an economist and historian at the University of California at San Diego and the author of a recent history of 20th-century American economics.

Not all the rebels are Marxists, although most do charge that neoclassical economists refuse to admit that their approach is "sycophantic to capitalism," as Steve Keen puts it. Mr. Keen, an economist at Australia's University of Western Sydney, says he objects to neoclassical economics because "it makes capitalism a worse system than it would otherwise be, and makes it

function less well as a generator of wealth and innovation."

Neoclassical theory holds that individuals, households, and companies rationally serve their best interests and that competition sorts out prices, wages, and the markets for goods and labor in economies' movement toward equilibrium.

In other words, the market economy and those who take care of themselves take care of one another.

That theory is rooted in the late-18th-century work of Adam Smith, although he defined economics more broadly as the study of the nature and causes of the wealth of nations.

His emphasis on self-interest, together with the theory of utilitarianism that Jeremy Bentham developed at about the same time, came to resound loudly in economics by the turn of the 20th century. Influential thinkers then increasingly emphasized the allocation of scarce resources among competing ends: Economics became a science of "rationality."

In the United States, World War II solidified the trend, says Mr. Bernstein. At the time, the government "embraced the work of these cutting-edge economists, saying, This work can help us wage war." New ideas about the application of mathematical models and modern statistics were used to meet government goals, so economics, like the nuclear arm of physics, benefited from enormous infusions of funds. Academic economics responded accordingly.

As a result, "every year, 1.4 million undergraduates in the U.S. take an introductory economics course that teaches that only selfishness is rational," objects Neva R. Goodwin, co-director of the Global Development and Environment Institute at Tufts University, who is helping to prepare a textbook with alternative views.

The orthodoxy also distorts economic reality, say its critics. "Superficially, it seems like a coherent model of the world," says Mr. Keen, the author of *Debunking Economics: The Naked Emperor of the Social Sciences*. But don't be fooled, he says, by the mainstream's fancy mathematics and claims that it is a predictive science, not just a descriptive social science.

"I'd put its maturity at the same level as physics before Newton," he scoffs. "And possibly before Galileo."

Many approaches to economics fall under the heterodox umbrella. Besides Marxist economics, they include so-called Austrian economics, which disputes the neoclassical truism that economies tend toward equilibrium; post-Keynesian economics, which highlights the role of uncertainty in economies; complexity theory, which uses such concepts as chaos theory to model economies; the intersections of economics and such realms as feminism, environmentalism, and the law; and evolutionary theory, which views economies as akin to evolving biological systems. The neglect of the last particularly appalls Mr. Bernstein, who calls one of its founders, Thorstein Veblen, "probably the most truly original thinker that the U.S. has produced."

Global Ripple

The dissidents take heart from events in France. In 2000, an online graduate-student petition proclaimed that neoclassical economics, or at least its unbridled application in teaching and research, dwelt in unreality to the point of being "autistic."

The students dubbed their movement "Post-Autistic Economics" and quickly provoked a national debate of the French variety. Some leading publications and high-profile economists hailed the protesters, who, in petitions-cum-manifestoes, denounced economics as a morass of "imaginary worlds" that was mired in "pathological," pseudoscientific mathematics; that was aggressively excluding pluralism; and that was, even so, barely able to explain "l'economie de Robinson Crusoe."

The French minister of education appointed a senior establishment economist, Jean-Paul Fitoussi, to lead a commission to study the claims. Last September, the panel issued a call for some reform of economics education.

"Some mistakes have taken place" in formal modeling, amid "very little concern for its empirical relevance," he conceded. Teach the debates about neoclassicism, he declared.

The forces of post-autism wanted more. In a petition of their own, some 200 French economists charged that the orthodoxy's rationalist "fiction" excluded the whimsy, variety, and "often altruistic" behavior of Homo economicus, and was a front for cultural power structures that other social sciences had deconstructed long before.

That sentiment rippled over to the Universities of Cambridge and Oxford, where graduate students began well-subscribed petitions, and then, with help from the Internet, on to several other countries. Most active has been the Post-Autistic Economics Review (<http://www.paecon.net>), edited by an American doctoral student at Cambridge.

In the United States, some Ivy League graduate students started a petition drive. Then, in June 2001, 75 reformers from 22 countries met in Kansas City, Mo., and produced a Kansas City Proposal, which decried economics' neglect of its own cultural, social, political, moral, and historical dimensions.

'A Con Game'

The reformers include prominent scholars who made their names as top-notch neoclassical economists. One is the iconoclastic and polymathic Deirdre N. McCloskey, a distinguished professor of the liberal arts and sciences at the University of Illinois at Chicago who also has appointments there and at Erasmus University of Rotterdam in art, cultural studies, economics, English, history, and philosophy.

In 1983, she (then he, but that's another story) sparked an uproar with "The Rhetoric of Economics," an article in the prestigious *Journal of Economic Literature*. In it, she convinced many heterodox economists that the discipline's claims to truth, while couched in terms of scientific proof, were shored up by many forms of reasoning and persuasion.

Much of economics, she has reiterated with rhetorical flair, is "a con game of a very odd sort," one marked by three primary "vices."

First, economists incessantly misuse tests of statistical significance. In a 1996 paper, "The Standard Errors of Regression," again in the *Journal of Economic Literature*, she and Stephen T. Ziliak, now an assistant professor of economics at the Georgia Institute of Technology, argued that about 70 percent of papers in a leading journal shirked accepted standards for determining statistical significance, while a similar proportion mistook statistical significance for economic importance -- by failing to use good, human judgment.

The second vice is "blackboard economics": "endless thinking about imaginary economies that don't ever have anything to do with the world." In her view, "that's not science; that's just chess problems." A genuine science like physics, she says, would observe and describe a phenomenon long before even venturing to model it.

The third vice: "the arrogance of social engineering."

Ms. McCloskey, a self-proclaimed free-market libertarian, expounds on those "sins" in such publications as *The Vices of Economists, the Virtues of the Bourgeoisie*. The latter, she argues, include not just prudence but also courage, temperance, and love -- elements that Adam Smith, too, wanted in economics' domain.

"Probably three-quarters of the scholarly activity in economics is useless, will result in no understanding of the world," she sums up. "Maybe higher. It's tragic."

Some more-mainstream American economists won't sign petitions but agree there is fire under the smoke. One is Edward E. Leamer, an econometrician at the University of California at Los Angeles. He says that in the 1930s, economics "was done in verbal, written language." But "the era of Samuelson," he says, referring to the Nobel laureate Paul A. Samuelson, "was so successful in introducing mathematics into the conversation that it's now required that you speak math."

Mr. Leamer calls that unfortunate "because most of our Ph.D. students can never really master that language, and they struggle so hard with the grammar and syntax that they end up not being able to say anything."

He and many other professors report that newly minted Ph.D.'s often cannot comprehend classic prose texts of the discipline, either. They have not read Adam Smith, David Ricardo, and John Maynard Keynes, titans of the 18th, 19th, and 20th centuries. As a result, those would-be academics learn the "neo" without the "classical," and so have no way of embracing the pioneers' varied legacies.

Do the Math

Most critics say mathematics is not the issue. "There are plenty of anti-neoclassical economists

who use math, and Marxist economists," notes Mr. Bernstein of San Diego.

In the online pages of the *Post-Autistic Economics Review* and other publications, fellow reformers have pounded away at a central point. As a University of Cambridge historian of economic thought, Geoff Harcourt, puts it, always "pose the economics of an issue first, then see whether some form of mathematics may be of use in solving the problems thrown up."

Mr. Leamer agrees. "The great economists got involved in this discipline because they were interested in these social problems, and they thought of economics as a tool for addressing and solving them," he says. "But the discipline has become more and more model-driven."

"A mathematician is uninterested in the problem," he adds. "He's interested in the degree of difficulty of the proof, or the surprise nature of the theorem. Those value systems are fine in mathematics, but they're very destructive in economics."

The issue may not be how much mathematics to use, and when, but what kind. Does neoclassical economics, with its emphasis on equilibrium, look for "closed form," "all other things being equal" solutions that simply don't suit the dynamic nature of economies? Yes, say critics like Western Sydney's Mr. Keen, who would prefer the kind of modeling, done in physics, biology, and other fields, that takes account of rates of change over time. "The physicists are saying, You guys might be using sophisticated mathematics from the 19th century, but you don't know crap about modeling today."

The Teflon Orthodoxy

Earlier attacks have left the American economics mainstream unscathed. The American Economic Association's Committee on Graduate Education in Economics, formed in 1988 and packed with big names, found similar faults with the discipline. One finding, says Mr. Leamer, a panelist: "Students could solve complex math problems, but they couldn't solve simple economics problems that would have been central in the 1960s." The committee's report appeared in 1991 in the flagship *American Economic Review* "and was then ignored," he recalls.

Similarly, in 1998, the group's Committee on Journals, headed by Thomas Schelling, a past president of the association, charged in a report that leading publications had too much theory and math, and too little empiricism, policy, and history.

Manuscripts in a "literary" mode, multidisciplinary manuscripts, policy-oriented manuscripts? Apparently unwelcome, said the committee's report, which by general agreement has languished. Reform-minded economists have not had even the limited success of a similar "perestroika" movement in political science, which has won a promise from leading journals that they will be more hospitable to nonmathematical articles.

Neoclassical practitioners say that's because the reformers' complaints are inaccurate. In the initial French debates, Robert M. Solow of the Massachusetts Institute of Technology -- a Nobel laureate whose growth model is a fixture of the undergraduate curriculum -- objected that the protesters were not sufficiently allowing for neoclassical economists' self-critiques and

evolution, for example their work on incomplete markets, imperfect competition, asymmetric information, and the like.

Kenneth J. Arrow, who shared the 1972 Nobel in economics, echoes that point. Neoclassical economics is "a pretty baggy framework, and a lot that goes on in it might not be quite what used to be thought of as neoclassical economics," says the Stanford University scholar, who is regarded as an architect of the mathematization of modern economics. So, while concepts like rational choice, profit maximization, and satisfaction may underlie most of the framework, what one means by them "has become more and more subtle."

Similarly, orthodox economists have broadened how they study such notions as rational choice. "The big thing there has been the development of game theory, recognizing that if you're trying to outguess somebody else, they're trying to outguess you," says Mr. Arrow. Game theory has been applied to many areas of economics, and that marks a major change since, say, the 1950s.

"Behavioral economics" -- the study of how people do not make rational choices -- also has recently "caught fire," he says. It is being applied to such realms as securities prices, consumer purchasing, contracts, and labor bargaining. The psychologist Daniel Kahneman of Princeton University shared the 2002 Nobel for work in the area that he had done with the late Amos Tversky. "Any good department has got to have a behavioral economist on board, and that's one of the signs of the way things develop," says Mr. Arrow.

"Now," he asks, "do you call that neoclassical or post-neoclassical? It is a continuation of the neoclassical tradition, but it's getting away from the traditional assumptions."

Mr. Keen is unimpressed. He says mainstream economists often tell reformers that they are attacking a straw man. But economics curriculums are still chockablock with the neoclassical. "So I simply respond," he says, "If what I demolish is a straw man, why do you teach him?"

Still, it's tough for an economics department to defy the dominant paradigm. "Everyone is trying to be a little MIT or a little Harvard, and look exactly the same because that's the way you get scientific prestige," says Bruce J. Caldwell, a historian of economic thought at the University of North Carolina at Greensboro. That approach, he points out, ignores basic economic theory about the benefits of diversification, specialization, and niche marketing.

Notre Dame, says Mr. Roche, the dean of arts and letters, is seeking a niche. Actually, two: one in economic thought and policy and another in which it can use mainstream tools. He is not surprised, however, that the plan makes his faculty members "unsettled." Orthodoxy, they know, has already begun to make inroads into some of the few other centers of heterodox practice: New School University and the Universities of Massachusetts at Amherst and California at Riverside.

'Parallel Conversations'

In June, in Kansas City, Mo., the International Confederation of Associations for Pluralism in Economics will hold a World Conference on the Future of Heterodox Economics, offering thousands of marginalized economists a rare opportunity to gather en masse. There, they will

plan their battles and commiserate about how long they must wait for change. And, says Georgia Tech's Mr. Ziliak, they will share war stories about how "the market wants you to pretend that you're an objective economist, who is going to reveal something about the world through neoclassical lenses, using standards of neoclassical theory, and some latest fashion of econometrics."

But even though people are "still hiding their embrace of pluralism, or of postmodern economics because they want that job," he says, they are "still doing research, in their preferred areas, although with little institutional support." That trend and the June meeting, he says, make him optimistic: "The idea is to create solidarities across different heterodox approaches -- libertarian, Afrocentric, feminist, etc. I know. Having laid aside the question of what are the interests of society, macroeconomic theory has paid little attention to how modern corporations might serve these goals. I feel energized by it."

Mr. Ziliak has another prediction. "Maybe we heterodox economists will just say that we don't care about the pecking order anymore, and we'll just produce parallel conversations in economics," he says. "That may mean having less-prestigious job offers and lower incomes, but I think you'll see more and more people doing that anyway -- obviously for both supply and demand reasons."

"That's right," says the forthright Mr. Keen. "You've got to agree to be marginalized, and then fight like hell."

HOW ECONOMICS BECAME WHAT IT IS

Several books on the history of the discipline of economics and the history of economic thought have appeared in recent years. More are forthcoming. Among them:

The Crisis in Economics, edited by Edward Fullbrook (Routledge, forthcoming in June)

Debunking Economics: The Naked Emperor of the Social Sciences, by Steve Keen (Pluto Press/Zed Books, 2001)

Economics and Reality, by Tony Lawson (Routledge, 1997)

Economics as Religion: From Samuelson to Chicago and Beyond, by Robert H. Nelson and Max L. Stackhouse (Penn State University Press, 2001)

How Economics Became a Mathematical Science, by E. Roy Weintraub (Duke University Press, 2002)

How Economics Forgot History, by Geoffrey Martin Hodgson (Routledge, 2001)

Intersubjectivity in Economics: Agents and Structures, edited by Edward Fullbrook (Routledge, 2001)

Machine Dreams: Economics Becomes a Cyborg Science, by Philip Mirowski (Cambridge University Press, 2002)

Microeconomics in Context, by Neva R. Goodwin, Julie Nelson, Frank Ackerman, and Thomas Weisskopf (Houghton Mifflin, forthcoming in 2004)

A Perilous Progress: Economists and Public Purpose in Twentieth-Century America, by Michael A. Bernstein (Princeton University Press, 2001)

Post-Modernism, Economics and Knowledge, edited by Stephen Cullenberg, Jack Amariglio, and David F. Ruccio (Routledge, 2001)

The Rhetoric of Economics, by Deirdre N. McCloskey (University of Wisconsin Press, second edition, 1998)

The Vices of Economists, the Virtues of the Bourgeoisie, by Deirdre N. McCloskey (Amsterdam University Press, 1996)

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