

# “Thinking like an economist”

## A FOREWARD

By William White

What does an economist do? He or she first seeks to understand how the economy works. Then, an economist asks how different policies might help it to work better, to improve the well-being of all people in a sustainable way. The current slogan of the OECD sums it up beautifully; “Better policies for better lives”. Nor should the importance of this endeavour be underestimated. Our economic circumstances also play a huge role in influencing social and political developments. Think, for example, of the economic backdrop to the French revolution and to the rise of the National Socialists in Germany.

What does an economist need to know in order to think like an economist? John Maynard Keynes gave us his answer in his obituary essay on Alfred Marshall.

“He must be mathematician, historian, statesman, and philosopher – in some degree.....He must study the present in light of the past, for the purposes of the future. No part of man’s nature or his institutions must lie entirely outside his regard.”

This Report fully embraces Keynes’ view in asking what kind of academic training might best prepare someone for such a career. It then contrasts what needs to be taught with what is actually taught in the Dutch speaking courses at universities in the Netherlands. Sadly, but convincingly, the Report concludes that the current curricula is totally “unfit for purpose”. Still more practically, it then goes on to suggest how different stakeholders in society might contribute to changing this state of affairs.

What needs to be taught? Consistent with Keynes’ thoughts, a pluralistic and multidisciplinary approach is needed. Evaluating policy prescriptions requires an understanding of the theory of knowledge – how do you know you know? Making policy trade-offs requires a broader sense of morality and ethical choices. Implementing policy suggestions requires an understanding of political realities – it is easier to go through an open door than a locked one. And above

all, there must be an understanding of contemporary problems. What is broken and needs to be fixed?

More specifically, the Report notes that 97 percent of Dutch undergraduate students in economics do not go on to do graduate work. Rather, they go on to do practical tasks in companies, governments, the media and elsewhere. As someone whose long career has been focussed on the practical issue of policy making – at the Bank of Canada, at the Bank for International Settlements and at the OECD - I can personally attest to the usefulness of a pluralistic and multidisciplinary approach. Absent such qualities, your policy advice will simply not be taken seriously by those you are trying to influence.

The Report lays out four criteria for a curriculum suitable for such practical people. First, they must have a suitably diversified “tool kit” of research methods. Quantitative methods have their advantages but also their shortcomings. As Frederick Hayek once pointed out, not everything that is important can be measured. Second, an economist should learn about different schools of economic thought. Each might bring different insights to help solve different problems at different times. Third, the curriculum should focus on “real world” economic problems and how economic history might provide practical insights about how to solve them. And, finally, there should be training in critical thinking. This would not only highlight the need to be open minded about the pros and cons of other people’s work, but would also point out the pervasiveness of one’s own personal biases.

What is taught in universities in the Netherlands? This is the core of the Report and its greatest contribution. The authors go beyond anecdotes and general grumbling to a careful and detailed analysis of the undergraduate course content in nine universities. In so doing, the authors develop a credible methodology to allow a quantitative assessment of course content. It confirms that students have much to grumble about. Sadly, a failing grade is awarded according to each of the four suggested criteria.

First, instead of a diverse “tool box” of research methodologies, mathematics and quantitative methods constitute almost 100 percent of course content. Second, instead of teaching different schools of economic thought, 86 percent is Neoclassical Economics. Third, instead of looking at real world problems, the focus is on model manipulation and the associated suggestion that the model is the real world. Fourth, while some aspects of the course work do contribute

to developing a critical mind set, the authors conclude “there is still much room for improvement”.

In effect, what is now defined as “economics” is no longer a discipline to understand how the economy actually works. It has been transformed into an agreed method of inquiry, using models that are based on a whole host of unrealistic assumptions. This Report then constitutes, not only a devastating critique of the course content offered by economic faculties in the Netherlands, but also a critique of the Neoclassical model that is now being taught in universities all around the world. In short, even the small percentage of undergraduates who go on to do a PhD are being ill-served by the present curriculum.

Perhaps the most fundamental shortcoming of this model is that it assumes the economy is both understandable and controllable. Unfortunately, to give the model these attributes demands simplifying it to the point where it has little practical usefulness. Perhaps most important, deviations from full employment are quickly reversed as the model reverts back to “equilibrium”. Financial markets, credit, debt and money are all a “veil” and can be safely ignored, as can stocks and cumulative processes. “Representative agents” stand in for the millions of diverse economic agents and institutions in the real world, thus missing all the economic properties that emerge from the interactions between them. Finally, the representative agents are assumed to be all knowing, both about how the economy works and how events will unfold over time.

Models based on these assumptions simply have no place for the global economic crisis and the slow economic growth that have characterized the last decade. In the world of the models, these events are impossible. One might have thought that this fact alone would have triggered a fundamental rethink of the models and the academic curricula associated with them. Do not true sciences advance by confronting theories with facts? Indeed, would it not be better to assume that the economy is a complex, adaptive system often generating highly non-linear outcomes? Since such systems are ubiquitous in both nature and society, it seems inherently odd to assume that the economy has a uniquely different nature. Making such an assumption would also, and importantly, allow economics to benefit from the insights of other disciplines.

While there are some welcome signs of change, we are still far from the “paradigm shift” required to make academic economics a practical discipline

again. In large part, this reflects the natural unwillingness of academics to admit that they have been on a bad path for a long time. The efforts of those students supporting the global movement for “Rethinking Economics” thus deserve a big round of applause. They might well be the catalyst for the change in mind-set that is required. More specifically, the authors of this report have made a very welcome contribution to the debate by documenting in such detail the shortcomings of the undergraduate economics curriculum in the Netherlands. It seems unlikely that the situation is any better elsewhere.