

Comments and reply on Peter Radford's ["Whither economics? What do we tell the students?"](#)

Steve Marglin [Harvard University, USA]

Dear Mr Radford,

I agree with most of what you say about economics, except that it is not as easy as you suggest to separate the study of economics from the study of economies. Keynes said it very well in the preface to the *General Theory*: the hardest part of coming to his new ideas was getting rid of the old ones. The problem is that one needs some kind of framework for studying economies and is thus plunged willy nilly into the study of economics.

Peter Radford

Steve,

Thanks for the comments.

I don't mean to overstate the ease of separation, so I thank you for pointing that out. Clearly any practical work in economics is going to rely heavily on a theoretical framework. My point is that the subject has progressively divorced itself from reality in order to deal with theoretical problems and seems, in my opinion, to have lost its connection with practicality. Subsequent applications of theory are then suspect - the restrictions necessary in theory render its constructs of dubious value in the 'real world'.

I thank you for the reference to Keynes. He could not be more correct. That so much of the internal discourse in economics is focused on the efficacy of his theory goes to show just how tough it is to get rid of those old ideas!

Edward Fullbrook

Steve Marglin, it seems to me, has raised a matter of great importance and one traditionally overlooked by economists at odds with the modern neoclassical mainstream. Dissent generally aims at specific points in the traditional framework and in total may include most or all of its structural timbers. But a new framework, or what Radford calls "coherence", for studying economics never emerges as an alternative. Here work cries out to be done. Without it the revolution will never take place, because either, as Marglin notes, one flounders "wily nilly" or, as Daniel Kahneman has explained, reforms are "noncumulative".

Drawing on his experience with behavioural economics, Kahneman [2003] elucidates the process by which the neoclassical framework – or "cornerstones" as he metaphorizes it – will, if not superseded, silently nullify all reforms even after they have been accepted as valid.

My first exposure to the psychological assumptions of economics was in a report that Bruno Frey wrote on that subject in the early 1970's. Its first or second sentence stated that the agent of economic theory is rational and selfish, and that his tastes do not change. I found this list quite startling, because I had been professionally trained as a psychologist not to believe a word of it. The gap between the assumptions of our disciplines appeared very large indeed.

Has the gap been narrowed in the intervening 30 years? A search through some introductory textbooks in economics indicates that if there has been any change, it has not yet filtered down to that level: the same assumptions are still in place as the cornerstones of economic analysis. [p. 162]

Kahneman then goes on to explain the mechanism by which the "church" or "theoretical framework" can forever and ever successfully defend itself against any and all significant reform.

The church of economics has admitted and even rewarded some scholars who would have been considered heretics in earlier periods . . . However, the analytical

methodology of economics is stable. . . . the standard assumptions about the economic agent are in economic theory for a reason: they allow for tractable analysis. The constraint of tractability can be satisfied with somewhat more complex models, but the number of parameters that can be added is small. One consequence is that the models of behavioral economics cannot stray too far from the original set of assumptions. Another consequence is that theoretical innovations in behavioral economics may be destined to be noncumulative: when a new model is developed to account for an anomaly of the basic theory, the parameters that were modified in earlier models will often be restored to their original settings. [pp. 165-6]

It is worth recalling how the last revolution in economics came about. It took place not through theory but through pedagogy. If Samuelson had any claim to genius it was that he understood better than anyone else that nothing in economics is nearly as important as Economics 101. Marshall, Samuelson's target, understood it also.

Prior to Samuelson's book, Alfred Marshall's *Principles of Economics* (1st edition, 1890) had, beginning with its first edition in 1890, been the leading prototype for introductory economics textbooks. Its opening sentence offered a definition of the subject which underpinned the basic narrative that developed through the long book.

'Political Economy or Economics is the study of mankind in the ordinary business of life; it examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of wellbeing.' (8th edition, 1938)

In 1932 Lionel Robbins in his *Essay on the Nature and Significance of Economic Science* in effect redefined economics via a set of axioms declared self-evident and *thereby beyond the empirical realm*, as the "science" of individual choice, the individual being conceived atomistically, that is, as a determinant self-contained entity. Robbins' redefinition would have counted for little if Samuelson had not then adopted it along with its implicit scientism in his textbook, using it as the reference point from which he constructed a new narrative for academic economics, and with the result that it became and remains the standard narrative approach or "framework" or "church" hymnbook in economics. Because it is inculcated into the student's mind from the first week and every week thereafter, many economists, including heterodox ones, seem unaware of its hold on and significance for their thought. It is this integrated set of empirically false ideas – that economics is the "science" of the choices of isolated individuals with fixed and quantified preferences on a planet which is a subset of the economy – that pervades the economist's mindset, enables economics to proceed in a formalistic manner and justifies to itself ignoring economic phenomena that do not fit its methodology and narrow agenda.

But it does not have to be like this. It is possible to invent for our time an approach to the study of economics that rescues us from willy nilly, that does not disdain empiricism and that restores the dismal science to a cumulative pursuit.

Reference

Kahneman, Daniel, 2003, "A Psychological Perspective on Economics", *AEA Papers and Proceedings*, May 2003, pp. 162-168.

See also

Peter Radford at <http://rwer.wordpress.com/2010/06/21/why-%e2%80%99heterodox-economics%e2%80%9d/#comment-1628> and at <http://rwer.wordpress.com/2010/01/25/soul-searching-in-economics/#comment-488>

Edward Fullbrook, "The Glass Wall" at <http://rwer.wordpress.com/2010/06/25/the-glass-wall/>

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