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Don't ask economists, just listen to Sargent and ask the people

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Let's have some fun.

Economics deserves to be a laughingstock. Really, it does. No one can take it seriously. I have tried. The effort isn't worth it. This doesn't mean that there aren't a ton of interesting things littered throughout the odd landscape of economics, it's just that most of them are not particularly unique to economics, and that more than a few derive their interest from their absurdity.

Economics is a barrel of laughs.

Truly it is.

Lars Syll has always has fun illustrating just how ridiculous economics has become. He lampoons the leading lights of the subject by directing their own words back at them. By stripping them of their self-glorious righteousness and peculiarly restricted narrowness he reduces me to fits of laughter every time he fishes a juicy quote from one of their murky pools. Take this from Thomas Sargent:

> "The people inside the model have much more knowledge about the system they are operating in than is available to the economist or econometrician who is using the model to try to understand their behavior. In particular, an econometrician faces the problem of estimating probability distributions and laws of motion that the agents in the model are assumed to know. Further the formal estimation and inference procedures of rational expectations econometricians assumes that the agents in the model already know many of the objects the econometrician is estimating."

Now stop laughing.

This is serious. Or, at least, I assume Sargent is being serious.

Think about this for a minute. So distant has reality become for Sargent and his ilk that the obviously ludicrous nature of that paragraph is probably lost on him. So obsessed are economists like Sargent with their models – I was tempted to say trivial, but I won't – and their need to make markets into perfectly operating, wondrous, all-conquering, all-knowing, universally true, simultaneously subjective and objective, solution finding collections of individuals who do not act collectively but yet produce collective results that never err (did I miss something?) they have to populate those models of markets with people who know economics better than any economists do.

Not only that, but Sargent says that the people in the models already know much of what economists are trying to find out.

So why don't economists just ask the people? I mean isn't that obvious? It would save a lot of trouble, plus economic forecasting would never be wrong. If economists are so ignorant of the economy whilst the people in their models are so knowledgeable, why are we relying on economists to study the economy? The people already know everything. Just ask. Really. Because I think that's what Sargent is saying.

Don't get it yet? Then take a second look at what Sargent said. Economists have had to assume that people know everything in order to make their vaunted markets appear to be perfect. That's their goal after all. This implies, presumably, that Sargent's model economies don't have economists in them because he admits economists are still searching for the knowledge everyone else in the models already have, and only people who know everything get to be part of an economic model.

So let's get this straight: according to Sargent the only people who don't know about the economy are economists. Right?

You know what they say about Emperors and clothes. Take something for that headache and move on.

It is laughable. It really is. We need not engage with economics, we need to ridicule it.

Then there's the matter of productive and unproductive labor. What on earth is this? It's an issue, as David Ruccio tells us, that has a long history inside the economics profession. Some of the big names of the past got all twisted when they wanted to sort out what was and what wasn't productive. Even Adam Smith and Karl Marx got it wrong. Of course back then the economy was very different: it was still heavily agricultural and industry was novel. It was easy to critique or misunderstand industry when it was relatively small scale and society was still learning how to deal with it.

And everyone had an opinion on what was productive. Usually the answer was ideologically driven – what's new in economics? What you want to argue is rotten is usually what you "discovered" was unproductive. Alternatively, what you want to be central to your theory is always productive. Naturally. Odd how that works in a science isn't it?

Anyway the entire question leaves me cold, especially since my background in management and banking condemns me to be doubly unproductive. Most economists just have no idea about what makes a business work. They are stubbornly resistant to any understanding of organization. This allows them to pursue their ideological holy grails with impunity. But it means that their economic landscapes are, to be polite, ridiculous. Instead of a robust middle layer of process and organization where production takes place, economists are stuck in a flat land of two layers: the individual and the whole system. There are no complex components, and businesses, such as they exist at all in economics, are reduced to murky black boxes of no interest. Really, most economists have no idea about business, but they talk as if they do.

Indeed because of the centrality of business in modern economies, economists then go on to opine about the merits and demerits of what goes on in those black boxes as if they know.

One group is, for instance, quite happy denouncing management as unproductive without having an inkling about what management is. They have, it seems jumped to a conclusion that fits their worldview, without disturbing themselves by wondering whether reality reflects that worldview. Management must be unproductive in this view because it doesn't make anything. As if production was all about making things, and procurement, logistics, organization, negotiation, financing, accounting, planning, design, and marketing were all cancerous afterthoughts weighing down on the production line. And, yes, I know those things are all costs, but try running a large business without them. See how far you get.

Of course there are other economists who think they have the perfect answer, which is to say they make a different set of assumptions that conform to their different worldview. This second group doesn't deride management as unproductive, it simply argues that management earns whatever its marginal product is. Which is tautological, because the only evidence they have of what management is worth is what management pays itself. So they really don't have a theory at all. But they sound like they do. Which is what matters in economics.

The fog of ideological preference can get awfully thick, nay impenetrable, sometimes.

Then again any economist arguing that you can separate politics and economics is already taking an ideological position and inviting the scorn of those of us genuinely interested in how economies actually work.

One hint for the non-economists amongst us: generally speaking economies work in ways that professional economics ignores. So don't ask the economists, just listen to Sargent and ask the people.

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