

sanity, humanity and science

post-autistic economics newsletter

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In this issue:

- the editor, *A Moderate Proposal*
- The Cambridge 27, *Opening Up Economics*
- Paul Ormerod, *Beyond Criticism*
- Steve Keen, *Economists Have No Ears*
- Grazia Letto-Gillies, *Economics and Multinationals*
- Emmanuelle Biencourt, *A Year in French Economics*
- Le Movement Autisme-Économie, *American Textbooks*

A Moderate Proposal

On June 14th, 27 PhD-students at Cambridge University released the open letter that appears below. Phil Faulkner, Leon Montes and Ingrid Robeyns wrote the proposal, following a visit by members of Le Movement Autisme-Économie. The French students "were keen for support from Cambridge, we felt entirely sympathetic with their point of view, and thought we should express our position. This was the primary purpose of the proposal."

But as with the open letter of the French students a year ago, the impact of the Cambridge letter may turn out to be greater than its authors' anticipated. A canvassing of Cambridge graduate students in economics generated many more positive replies than negative ones. But of the 27 PhD-students who initially expressed support for "**Opening Up Economics**", the majority feel that the likelihood of their being persecuted by the Cambridge Economics Faculty, if their support were to become known, is such that they feel they must remain anonymous for the time being. Of course this climate of fear is not unknown in other economics departments. Even so, the present case is shocking because the most noticeable thing about the graduate students' proposal is how **moderate** it is. It merely raises three basic questions and encourages economists to discuss them openly. It is difficult to imagine how anyone who subscribes to the ethos of science or to the principles of an open society could find the least objection to this proposal.

However, the facts are such that the Cambridge students need your support. **They are asking for economic students and economists, wherever they are based, who wish to formally and publicly back their proposal to email them at cesp@econ.cam.ac.uk with the following:**

"I support the proposal of the Cambridge economics PhD students...signed"

Please include university/position if you wish these to be noted. Your name will be posted on the "Opening Up Economics" page at www.paecon.net. The web page will be regularly updated with the full list of supporters. Already there are 84 names on the list. **It will only take you a minute or less to add yours.**

Opening Up Economics: A Proposal By Cambridge Students

The Cambridge 27 (University of Cambridge, UK)

As students at Cambridge University, we wish to encourage a debate on contemporary economics. We set out below what we take to be characteristic of today's economics, what we feel needs to be debated and why: As defined by its teaching and research practices, we believe that economics is monopolised by a single approach to the explanation and analysis of economic phenomena. At the heart of this approach lies a commitment to formal modes of reasoning that must be employed for research to be considered valid. The evidence for this is not hard to come by. The contents of the discipline's major journals, of its faculties and its courses all point in this direction.

In our opinion, the general applicability of this formal approach to understanding economic phenomenon is disputable. This is the debate that needs to take place. When are these formal methods the best route to generating good explanations? What makes these methods useful and consequently, what are their limitations? What other methods could be used in economics? This debate needs to take place within economics and between economists, rather than on the fringe of the subject or outside of it all together.

In particular we propose the following:

1. That the foundations of the mainstream approach be openly debated. This requires that the bad criticisms be rejected just as firmly as the bad defences. Students, teachers and researchers need to know and acknowledge the strengths and weaknesses of the mainstream approach to economics.
2. That competing approaches to understanding economic phenomena be subjected to the same degree of critical debate. Where these approaches provide significant insights into economic life, they should be taught and their research encouraged within economics. At the moment this is not happening. Competing approaches have little role in economics as it stands simply because they do not conform to the mainstream's view of what constitutes economics. It should be clear that such a situation is self-enforcing.

This debate is important because in our view the status quo is harmful in at least four respects. Firstly, it is harmful to students who are taught the 'tools' of mainstream economics without learning their domain of applicability. The source and evolution of these ideas is ignored, as is the existence and status of competing theories. Secondly, it disadvantages a society that ought to be benefiting from what economists can tell us about the world. Economics is a social science with enormous potential for making a difference through its impact on policy debates. In its present form its effectiveness in this arena is limited by the uncritical application of mainstream methods. Thirdly, progress towards a deeper understanding of many important aspects of economic life is being held back. By restricting research done in economics to that based on one approach only, the development of competing research programs is seriously hampered or prevented altogether. Fourth and finally, in the current situation an economist who does not do economics in the prescribed way finds it very difficult to get recognition for her research.

The dominance of the mainstream approach creates a social convention in the profession that only economic knowledge production that fits the mainstream approach can be good research, and therefore other modes of economic knowledge are all too easily dismissed as simply being poor, or as not being economics. Many economists therefore face a

choice between using what they consider inappropriate methods to answer economic questions, or to adopt what they consider the best methods for the question at hand knowing that their work is unlikely to receive a hearing from economists.

Let us conclude by emphasizing what we are certainly not proposing: we are not arguing against the mainstream approach per se, but against the fact that its dominance is taken for granted in the profession. We are not arguing against mainstream methods, but believe in a pluralism of methods and approaches justified by debate. Pluralism as a default implies that alternative economic work is not simply tolerated, but that the material and social conditions for its flourishing are met, to the same extent as is currently the case for mainstream economics. This is what we mean when we refer to an 'opening up' of economics.
cesp@econ.cam.ac.uk

Beyond Criticism

Paul Ormerod

I welcome very much the debate initiated by the PAE community about how economics is taught and to what extent mathematics is appropriate to the discipline. I sympathise with many of the aims. Overall, I stand very firmly by the criticisms which I made of conventional economics in the *Death of Economics* in 1994. Economics needs a awful lot of special assumptions to apply before it is able to give a good description of how the world operates.

Too often, economics loses sight of the fact that formal modelling skills are not the only thing that matters in the social sciences. Awareness of the social and institutional setting in which a problem is being analysed is often essential, as is a knowledge of economic history. Social science is *harder* to do successfully than are the natural sciences. The idea that people respond to incentives - to prices - is as close to a universal law as we have got, but the strength of the response to a given set of incentives is emphatically not universal. It varies with the social and institutional setting and with the historical context.

We must abandon the wholly unrealistic claim of mainstream economics to have discovered a general rule of agent behaviour - namely maximising behaviour - which applies in all circumstances. We know the enormous amount of evidence from the cognitive sciences about the limited ability of agents to process information, which undermines the concept of maximisation except in very special circumstances. The appropriate rules of agent behaviour will be shaped by the institutional setting in which agents operate.

But the excellent debate on economics which has been started is weak on a key issue. The principal strength of economics is that it trains people to think analytically. There is great value in this, and we must now move beyond criticism. The more effective and widespread the criticisms are, the greater the responsibility on critics of orthodoxy to produce better accounts of how the world operates. So far, it is only a distinct minority of critics of mainstream economics which appreciates that there is a responsibility to provide not just criticism but better analysis. As Alan Kirman, a highly innovative economist based in Marseilles, has remarked 'In the long list of those who have signed the petition, there seem to be very few who are actually making an attempt to model the economy'.

My own work over the past few years has been concerned with trying to use the new approaches of complexity theory to produce models which are more general than those of orthodoxy, which need fewer assumptions to be valid in order to understand the world better than existing models. I must stress that I am not being in any way prescriptive. Other approaches may prove to work as well or even better, but unless we make the effort, the mainstream will simply ignore us.

To repeat again, to avoid misunderstanding, I am not saying that formal models are the only thing which matters. The world is a very complicated place, but an important way in which we can make sense of it is by using models which are simplifications, often drastically so, of reality. The advantage which those of us in the critical community have over many in the mainstream is that we are constantly aware of the fact that these *are* simplifications. Far too many economists have been socialised into believing that rational maximisation is the only conceivable way in which agents can operate.

It seems to me that the most restrictive assumptions of orthodoxy - restrictive in that it severely limits its capacity to illuminate many real world problems - is the assumption that the tastes and preferences of agents are fixed. Individuals and firms in standard economic theory can process huge amounts of information in exceptionally complicated ways, but the one thing they are not allowed to do is to alter their behaviour in the light of what others are doing. They respond to the decisions of others only in so far as these affect the prices of the goods and services which the individual buys and/or sells. They do not want a Teletubbie, say, or a hula hoop or, much more seriously, a 30 year US government bond rather than a French one, simply because other people do. But in the real world this sort of behaviour is pervasive. From fashion markets to financial markets to the degree of optimism or pessimism which firms feel about the future, the opinions and behaviour of others affects directly how individuals behave.

These are examples of what I believe will be the future of theoretical analysis in economics. Other examples which I give in *Butterfly Economics* include the choice of restaurants, the success and failure of Hollywood films, the evolution of crime, how family structures change, and the American business cycle. We are now in the position of being able to create micro foundations of macro phenomena, computer-based models in which individual agents following rules of behaviour interact with each other. And the macro properties of the system emerge from these interactions.

Orthodox economics claims to be able to do this already. Indeed, it *can*, but only under very special circumstances. Conventional theory permits the behaviour of others to alter the behaviour of any given individual only *indirectly* via the price mechanism. Agents may convey information to others, but this does not alter their tastes and preferences. This assumption is essential to the mathematics of conventional theory, which remains rooted firmly in the nineteenth century. It enables the behaviour of the system as a whole to be characterised by the 'representative agent', and enables macro properties to be derived from individual behaviour - the so-called 'micro-foundations of macro', the Holy Grail of conventional theory.

This has been a powerful stick with which to beat dissidents, from the lowly post-graduate student right up to Keynes himself - after all, where *were* the micro-foundations of his so-called General Theory? But now I believe the wheel has turned full circle.

Relaxing the assumption of fixed preferences opens up the possibility of a much better understanding of how the world operates. Conventional theory can be thought of merely as a special case of this far more general approach: it has its greatest validity in circumstances in which fixed preferences offer a reasonable approximation to reality, like the shopper in the supermarket.

Until recently, it has not been possible to relax this central assumption. The growing ability to begin to understand systems in which agents can alter each other's behaviour directly is, in my view, by far the most important methodological development in economics for many years. It will eventually change completely the way in which economics is done.

Methodologically, this approach enables a more scientific testing of theories. The key

properties at the aggregate level of the system being examined are identified. Time-series econometrics consists of no more than curve-fitting around such properties. In this approach, individual agents are given behavioural rules. The properties of the system as a whole *emerge* from the interaction of these rules. The macro-properties which emerge from micro-behavioural rules can then be compared with the actual macro-properties.

So I find this very exciting. Here is a development which enables orthodox economics to be undermined on its own terms. Yes, conventional economics does have micro foundations of macro behaviour, but these are only applicable in special circumstances, and the claim of orthodoxy to generality, to general rules, collapses.

The approach also calls for very careful consideration of the framework in which the model is set up - the institutional setting. In trying to understand the possibilities for the exchange rate, for example, a world of free capital movements implies a different set of behavioural rules for the micro level agents than a world in which capital is controlled.

It is not so much that orthodoxy is dead or useless, it's more a case of keeping the whole construct in a box to bring out on the occasions when it is relevant. In the 21st century, economics really can be re-born and give us a much better understanding of the world.
pomerod@volterra.co.uk

Economists Have No Ears

Steve Keen (University of Western Sydney, Australia)

Thomas Kuhn once famously described textbooks as the vehicle by which students learn how to do 'normal science' in an academic discipline. Economic textbooks clearly fulfil this function, but the pity is that what passes for 'normal' in economics barely deserves the appellation 'science'.

Most introductory economics textbooks present a sanitised, uncritical rendition of conventional economic theory, and the courses in which these textbooks are used do little to counter this mendacious presentation. Students might learn, for example, that 'externalities' reduce the efficiency of the market mechanism. However, they will not learn that the 'proof' that markets are efficient is itself flawed.

Since this textbook rendition of economics is also profoundly boring, the majority of those exposed to introductory course in economics do no more than this, and instead go on to careers in accountancy, finance or management - in which, nonetheless, many continue to harbour the simplistic notions they were taught many years earlier.

The minority which continues on to further academic training is taught the complicated techniques of economic analysis, with little to no discussion of whether these techniques are actually intellectually valid. The enormous critical literature is simply left out of advanced courses, while glaring logical shortcomings are glossed over with specious assumptions. However, most students accept these assumptions because their training leaves them both insufficiently literate and insufficiently numerate.

Most modern-day economics students are insufficiently literate because economic education eschews the study of the history of economic thought. Even a passing acquaintance with this literature exposes the reader to critical perspectives on conventional economic theory - but students today receive no such exposure.

They are insufficiently numerate because the material which establishes the intellectual weaknesses of economics is complex. Understanding this literature in its raw form

requires an appreciation of some quite difficult areas of mathematics-concepts which require up to two years of undergraduate mathematical training to understand.

Curiously, though economists like to intimidate other social scientists with the mathematical rigour of their discipline, most economists do not have this level of mathematical education. Though economics students do attend numerous courses on mathematics, these are normally given by other economists. The argument for this approach - the partially sighted leading the partially sighted - is that generalist mathematics courses don't teach the concepts needed to understand mathematical economics (or the economic version of statistics, known as econometrics). As any student of econometrics knows, this is quite often true. However, it has the side effect that economics has persevered with mathematical methods which professional mathematicians have long ago transcended. This dated version of mathematics shields students from new developments in mathematics that, incidentally, undermine much of neoclassical economic theory.

One example of this is the way economists have reacted to 'chaos theory'. Most economists think that chaos theory has had little or no impact-which is generally true in economics, but not at all true in most other sciences. This is partially because, to understand chaos theory, you have to understand an area of mathematics known as 'ordinary differential equations'. Yet this topic is taught in very few courses on mathematical economics - and where it is taught, it is not covered in sufficient depth. Students may learn some of the basic techniques for handling linear difference or differential equations, but chaos and complexity only begin to manifest themselves in non-linear difference and differential equations'. A student in a conventional 'quantitative methods in economics' subject will thus acquire the prejudices that 'dynamics is uninteresting', which is largely true of the behaviour of linear dynamical systems, but not at all true of non-linear systems. This prejudice then isolates the student from much of what is new and interesting in mathematical theory and practice, let alone from what scientists in other sciences are doing.

Economics students therefore graduate from Masters and PhD programs with an effectively vacuous understanding of economics, no appreciation of the intellectual history of their discipline, and an approach to mathematics which hobbles both their critical understanding of economics, and their ability to appreciate the latest advances in mathematics and other sciences.

A minority of these ill-informed students themselves go on to be academic economists, and then repeat the process. Ignorance is perpetuated.

The attempt to conduct a critical dialogue within the profession of academic economics has therefore failed, not because economics has no flaws, but because - figuratively speaking - conventional economists have no ears. So then, 'No More Mr Nice Guy'. If economists can't be trusted to follow the Queensberry Rules of intellectual debate, then we critics have to step out of the boxing ring and into the streets. Hence my book 'Debunking Economics', which describes the many formal academic critiques of neoclassical economics in a manner which - I hope - is accessible to a the interested non-economist and non-mathematical readership. But it should also prove very useful to those who have come to regard conventional economic theory as autistic, since it clearly and simply explains the source of this endemic autism.

s.keen@uws.edu.au

Economics and Multinationals

Grazia letto-Gillies (South Bank University, London)

Multinationals are everywhere except in economic theories and economics departments. Transnational companies (as I prefer to call them) or TNCs have been with us for a very long time, but in recent years they have attracted special – often unwanted – attention. They inspire street protests and counter-protests, globalisation debates and policy debates - debates which TNCs often shape behind the scenes.

But the reality of TNCs remains largely absent from economic theory and curricula. In fact, I come across many young bright economics graduates who have learned nothing about TNCs and their activities in the course of their studies, though some of them are learning about TNCs from anti (or pro) globalisation groups. The more prestigious and highly-rated the university that the graduates come from, the less likely they are to have been taught about TNCs.

From the point of view of people in the streets, this situation looks incredible. However, in order to analyse it coolly, let us begin by assuming a world with no national barriers and no frontiers, a single currency and a single tax regime, in other words the whole world is a single nation state. In this imaginary world there is no theory of international production because there is, in effect, no international economic realm. So here it suffices to use location theory to explain where production is located and to use theories of the firm, business governance and market structure to explain the growth of firms, their boundaries and their behavior *vis-à-vis* other firms. Because the international dimensions to economic reality are assumed away, theories of TNCs and foreign direct investment are redundant.

This is indeed the tacit approach taken in most traditional economics departments. They deal with the international economy at the macro level by teaching and researching issues of international trade and balance of payments. At the micro level, theories of the firm and investment are not usually analyzed in the context of the nationality/transnationality of the investor. Characteristics of companies other than multi-nationality (such as size or some strategic behavior) are dealt with in the context of oligopoly theory. On the teaching side, multinational companies, their existence, growth, and range of activities may be dealt with in a couple of lectures within a unit on industrial economics. This traditional approach can indeed be justified if one takes the view that the nationality of the investor and the transnationality of operations make no difference to the geographical pattern of investment and production or to the overall amount of production or to its impact on the country where the investment takes place.

But the recent development of separate theories of TNCs and their activities shows that a large number of researchers now think that 'nationality' and transnationality do matter. The following factors are regarded as especially relevant: impact on host and home countries; scope for investment; scope for the growth of the firm and the range of its activities; structure and location of production worldwide; international trade; international capital movements.

Until recently, research on TNCs has been confined mainly to 'business schools' on both sides of the Atlantic. But the last ten/fifteen years has seen a growing interest in the

multinational company on the part of more traditional economists. Two factors have led to this increase. First, there has been a growing interest in “new trade theories” that deal with location and geography issues. Second, the modelling techniques used in these theories can also be applied to the “new trade theories with MNCs” developed by Krugman, Helpman, Markusen, Venables and others. This allows economists, for the first time, to look at MNCs in the context of general equilibrium theories.

But there are problems with this line of attack, because it is essentially a multi-plant rather than a multi-nation approach. As such, it misses out on the main characteristics of TNCs: their cross- and trans- nationality of operations. This takes us to the arguments in favor of putting the TNCs at the centre of economic theory and teaching.

Operating across national borders has three main dimensions. Firstly, there is a *spatial* dimension: the geographical distance between (and within) production sites and markets, and the related transportation costs. Distance, however, is not a cross-border dimension; it is not necessarily linked to nation-state frontiers. The geographical distance between regions/cities of a single nation-state can be as great as the distance between regions/cities belonging to different nation-states.

Secondly, there is a *cultural* – including linguistic – dimension in cross-boundary operations. Normally, cultural differences tend to be greater between than within nation-states. But again this is only a crude generalization. I doubt, for example, whether Milan is culturally closer to Reggio Calabria than to Paris or Brussels.

Thirdly, there is a *regulatory* dimension. Nation-states have different regulatory regimes, including different laws, regulations and customs governing production, markets and the use and movements of resources. Operating across national boundaries gives the TNCs advantages in the following areas, most of them linked to the existence of different regulatory regimes in different nation-states. (a) They confront a fragmented labour force because labour has been unable, so far, to organise across nation-states. (b) They can play national and regional governments against each other in bargaining for incentives. (c) They can spread risks – particularly political risks - across a spectrum of countries. (d) They have wide scope for the manipulation of prices for the internal transfer of products – whether material components or services – between countries.

For all these reasons I believe that operating across national boundaries gives transnational companies advantages (as well as some extra managerial and organisational costs). In particular it gives them comparative advantages compared to actors who are unable to do so. So far, transnational companies are the only economic actors who can truly plan, organise, control activities internationally. Other actors such as labour, national governments, uninational companies and consumers are as yet unable to do so. This puts TNCs in a very special and privileged position.

This special comparative position influences TNCs’ decisions on where and how to produce and sell. It therefore is at the heart of issues of location of production, trade and distribution, including the distribution of production and income across boundaries and

between labour and capital, and distribution of the surplus between the private and public sectors and between different nation-states.

Conclusion

Nation-states and their regulatory regimes do matter for the decisions of the major players in investment and production worldwide. Theories of transnational companies and of foreign direct investment are needed because we have nation-states and frontiers. The activities of transnational companies should be an integral part of both micro and macro theory because they shape both micro and macro realities.. If we are serious about realism, then let us put the reality of transnational companies at the forefront of our economics both in terms of research agendas and teaching. The real world out there is doing so. People in the streets have understood that the international operations of TNCs matter. We economists do not seem to have awoken fully to this fact.

These issues are further developed by Grazia Ietto-Gillies in her new book [Transnational Corporations: Fragmentation amidst Integration](#), Routledge Nov. 2001. iettog@sbu.ac.uk

A Year in French Economics

Emmanuelle Biencourt

In May 2000, we – a few students from Parisian universities and grandes écoles (mainly l'Ecole Normal Supérieure) – wrote an open letter in which we denounced the way economics was taught in France. Our criticism included three basic points:

1. Most courses deal with an “imaginary world”, and have no link whatsoever with concrete problems. Acquiring a sound understanding of economic phenomena is one of the reasons why we have chosen to pursue our studies in this field. Teaching, however, is mainly restricted to presentations of the neoclassical theory (or approaches derived from it). We are rarely confronted either with empirical studies or with historical perspectives and analysis.
2. Formalization dominates our courses. It also is used both to select students and to give a pseudo-scientific proof to theories. Indeed, rather than being a useful instrument of comprehension, formalization has become an end in itself (the more complicated the formulas, the better) and this tends to “eliminate” students with only a basic mathematical knowledge even if they have a sound understanding of economics. Furthermore, formalization is almost always biased so that the “appropriate result” is found, thus “proving” the theory’s relevance.
3. Finally, we criticize the lack of pluralism in the economics degree. Generally, courses are limited to teaching –dogmatically – the neoclassical approach, thus excluding other theories and other social sciences. We believe that a plurality of viewpoints is useful in understanding the complexity of the questions we are concerned with (unemployment, inequality, development, ...).

A few weeks after we wrote our “open letter”, articles about our movement, *autisme-économie*, began appearing in French newspapers. Soon our “open letter” had several hundred signatures (more than 500 in July 2000). The consequences have exceeded our expectations and can be grouped into four categories.

First, our letter led to open debate in the academic world about the state of economics and economics teaching. Teachers began publicly to take sides on whether they did or did not support the status quo. Following our initiative, over 200 teachers – from all over France – published a text that supported our criticisms of economic studies. On the other hand, a few economists published a “counter-petition” in which they tried to justify the use of mathematics in economics (a point which we had never contested), and in which they expressed their view that it was only mathematical formalism that could make economics “scientific”. In addition to this national debate between professors, several famous economists from abroad (among others, Olivier Blanchard, Robert Solow and Amartya Sen) entered the discussion. In doing so, they demonstrated that the issues we raised were not irrelevant, and that no ‘consensus’ had been reached concerning the way economics should be taught.

Second, the “open-letter” – and the many signatures it gathered – led the French Minister of Education (Jack Lang) to ask for a national study on how economics was taught in universities and grandes écoles. He appointed a prominent French economist, Jean-Paul Fitoussi, to head up the investigation and whose report is now expected in September. Throughout the year we have met with Fitoussi several times and have discussed the issues we raised in the “open-letter”. He has listened to our complaints and analysis, and it seems that a certain number of our suggestions (such as more pluralism) will stand in his conclusions. Although he agrees on the “imaginary” content of most courses, he seems unwilling to agree to ending of hegemony of neoclassical microeconomics. But we have presented him with various texts arguing our case, such as “What Is the Use of Microeconomics” (found on our web site: www.autisme-economie.org), and, notably, he has been unable to give us satisfying answers.

Thirdly and closely linked to the above, we have translated our criticism into constructive action. Since some universities were about to devise new curricula, we wrote a petition asking for certain kinds of changes, such as a revamping of the introductory micro and macro courses, a sound use of mathematics, and more pluralism in the economics degree. Concerning this last point, we ask for a plurality of approaches both in economics (Marxist and Keynesian economics, the French “*école de la régulation*” of Aglietti and Boyer, etc.), and in other social sciences (such as sociology, history, political philosophy...). This petition for reform has been signed by over 1550 students. As a consequence, and in face of the declining number of students in economics, some universities administrators have now agreed that economics can not continue to be taught the way it has been. The new curricula are to be decided in June. We do not yet know if our propositions will be taken into consideration.

Finally, we have organized and participated in numerous conferences and debates in universities across France (among others, Lille, Reims, Bordeaux, Montpellier, Nanterre, and Strasbourg). These have not only informed students about the movement, but also informed us about the state of affairs in other French universities.. For example, at the debate in Nanterre, three teachers expounded their views on questions we had posed in advance. Over 300 students attended and some asked the teachers precise questions concerning their studies. Unsurprisingly, one student asked how microeconomics as taught was useful for understanding contemporary economic issues, and got no answer. On a broader scale, these debates were both very instructive and constructive. By sharing their points of view, students expressed their main aspirations and criticisms. On our side, these debates gave us detailed knowledge of how economics was being taught in many universities, and helped us to formulate on the basis of first-hand experiences more precise suggestions and requests. Also, as we met students all across France, we invited them to participate in the movement.

Since March 2001, we have published a monthly journal. This journal is meant to inform students on what precisely is being done to change the way economics is taught in France.

The journal also serves as a means for students to express their opinions on economic issues. Some students have written articles on what was going on in their university; others have critiqued the mainstream approach in economics. We invite anyone to take part in this concrete and theoretical discussion (i.e. how to teach economics and why): either by the means of the journal or by going on our web-site.

So the originally “Parisian” movement now exists on a much broader scale. We hope it will trigger concrete transformations of the way economics is taught in France and abroad. We believe that understanding real-world economic phenomena is enormously important to the future well-being of humankind, but that the current narrow, antiquated and naive approaches to economics and economics teaching make this understanding impossible. We therefore hold it to be extremely important, both ethically and economically, that reforms like the ones we have proposed are, in the years to come, carried through, not just in France, but throughout the world.

These ‘wonderful’ US Textbooks...

Le Movement Autisme-Économie

Everyone praises the recent US textbooks on “the principles of economics” written by leading authors such as Mankiw and Stiglitz. People praise them for their clarity, for their restrained use of formalism, and for their bright colours, pictures and newspaper articles which make them visually interesting.

But what is their purpose? It is to convince the student that there is a specific kind of reasoning, called “economic reasoning”, which is quite simple to grasp and enjoys universal validity. It has two central pillars. There is the “law of supply and demand”, which everyday life supposedly confirms. And there is the proposition that the market is an “efficient” system – i.e., a “mechanism” which generally allocates resources in an optimal way. The efficiency proposition, however, is presented neither as an empirical truth nor as an *a priori* belief. Instead it is offered as a *result* in the mathematical sense, but one too demanding to be shown to the readers. In lieu of a proof, students are offered various poetic images, including the inescapable “invisible hand”.

Everyone knows that economists very often disagree with one another. But these textbooks try to make the student believe that this disagreement concerns only minor points. Regarding core issues, a consensus is presumed to exist. Stiglitz, for example, offers a list of statements on which all economists supposedly agree. Similarly, Mankiw’s builds his first chapter around “Ten principles of economics” which he presents as obvious and, hence, neither needing discussion nor subject to disagreement. And in his second chapter “Thinking Like an Economist”, he presents “Ten proposals on which everybody agrees”. True, both books mention the existence of debates, but they neutralize them epistemologically by characterizing them as due to different “values” rather than different explanations.

Mankiw: “the magical invisible hand”

In its first chapter, Mankiw’s book asserts: “in general, competitive markets are an efficient way to organise economic activity”. To justify this claim, Mankiw invokes Adam Smith’s “invisible hand”

“In his book, *The Wealth of Nations*, the economist Smith remarked (and this is the most famous remark of all economics) that firms and individuals which participate in a market behave as if they were guided by an invisible hand which favours positive results for all. One of the aims of this textbook is to explain how *this magical invisible*

hand works. By studying economics, you will learn that prices are the tool through which the invisible hand organises the economy.” (emphasis added)

Mankiw, however, never explains how this “invisible hand”, for which the prices are supposed to be the “tools”, works. Perhaps he has in mind the quite *visible* hand of the walrasian auctioneer, but, if so, he never says. In the whole textbook one finds not a single reference to the Arrow-Debreu general equilibrium analysis, although generally it is presented by neoclassical economists as the mathematised version of the “invisible hand”. Instead, the student must be satisfied with hyperbolic remarks like “the remarkable capacity of the invisible hand to organise the economy”.

The “amazement” of Samuelson and Nordhaus, and Stiglitz’s “spring”

Samuelson and Nordhaus (S&N) also wave the invisible hand when claiming to answer the question “what’s a market?”. The “actions and goals” of individuals “are coordinated in an invisible way by a system of prices and markets”. S&N, however, prefer miracles and wonderment to Mankiw’s “magic”. “[T]he true miracle,” they write, “is that the whole system functions without coercion nor central direction by anybody.” And “most of our economic life takes place without State intervention; this is the true wonder of our society”. The market economy may have some “deficiencies”, but it is its miraculous feature which matters.

Stiglitz is not so wildly enthusiastic as S&N, but the ideas are the same. His innovation is in the realm of metaphor. In explaining how markets work, Stiglitz substitutes for the invisible hand a “weight attached to a spring”, whose movement progressively decreases until it reaches equilibrium. Like Mankiw and S&N, Stiglitz offers no explanation in economic terms of how markets work.

What is a market?

All of these textbooks fail to explain how prices are determined in “markets”, and thus how markets work. Where do prices come from? Who determines them? How do they fluctuate? These questions are never addressed, even though it is through the price mechanism that the “invisible hand” is supposed to operate.

When Mankiw wants to give a “concrete” example, such as “the ice cream market in a given city”, he can not explain where the prices come from since he has assumed that buyers and sellers are price takers. So he is reduced to surreptitiously introducing a “current price”, through an apparently common sense argument: “a seller has few reasons to sell under the current price, and if he sells above, then consumers will buy their ice cream somewhere else.” Isn’t it obvious? Economics is so simple... But the question of setting the price, even the current one, remains un-addressed.

S&N perform basically the same trick but with a different metaphor. They write: “on a market, prices coordinate producers and consumers decisions... Prices are the driving belt of the market mechanism.” But like the other textbooks, S&N’s sidesteps the really big question: how are the prices set?

Conclusion

These textbooks **presuppose** that the market is an efficient device guided by the invisible hand, and then refuse to address the basic questions of how market prices are set and how individual choices are coordinated. It is only when these textbooks deal with market failures (information asymmetries, externalities, public goods, etc.) that they provide a few interesting insights. When dealing with these problems, the authors recognise that there is no obvious “solution”. On the contrary, the outcome depends on the factors taken into account, their relative importance, the forces and interests at stake, as well as, very often, the norms and values endorsed by the people. It is striking that these discussions and reflections take place without using any of the famous “tools” of standard microeconomics.

But this is hardly surprising, as these “tools” apply only to imaginary worlds, completely detached from the world we live in.

EDITOR: Edward Fullbrook

CORRESPONDENTS: Argentina: Iserino; Australia: Joseph Halevi, Steve Keen; Brazil: Wagner Leal Arienti; France: Gilles Raveaud, Olivier Vaury; J. Walter Plinge; Germany: Helge Peukert; Japan: Susumu Takenaga; India: Nitasha Kaul; Spain: Jorge Fabra; United Kingdom: Michael Murphy; United States: Benjamin Balak, Daniel Lien, Paul Surlis; At large: Paddy Quick

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