The Crisis in 'Economics'

The economic crisis has produced a crisis in the *study* of economics – a growing realization that if the field is going to offer meaningful solutions, **greater attention must be paid to what is happening in university lecture halls and seminar rooms.** How did economics become so abstract?

A Brief History

The **Industrial Revolution** unleashed profound socio-economic changes, including the rise of **Market-based Economies.**

By the end of the 19th century, it was believed that:

- **markets** could be trusted to produce the most efficient allocation of scarce resources
- **individuals** would always seek to maximize their utility in an economically rational way
- an **equilibrium** of prices, wages, supply and demand would hold.

None of these assumptions have proven to be correct.
Nevertheless, the idea that 'economics'- divorced from the study of morality and politics- could be considered a *science* gradually emerged.

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You **Me** **Victory!**

The 20th Century Economic Paradigm

The turning point came in 1947, when Paul Samuelson's classic book **Foundations of Economic Analysis** for the first time presented *economics as a branch of applied mathematics.*

The **Nobel Prize for Economics** has given further credence to the erroneous perception that economics is a science.

In the 1970s and 1980s, economists whose work supported neoclassical, pro-market, laissez-faire ideas **won a disproportionate number of Nobel Prize honours,** as well as support from increasing numbers of pro-market well-funded think tanks and foundations.

> Those who rejected or were skeptical of the natural sciences model, were quickly marginalized, and their road to academic advancement often blocked.

Dogma

The result was a *homogenization* and rigidity of economic thought which has been as beneficial to an elitist 1% minority as it has been harmful to the Earth and the rest of us.

What, exactly, *are* the primary economic models?

Rational-expectations Theory and its corollary, the efficient-market hypothesis, have been central to mainstream economics for more than 40 years; and yet failed to include environmental concerns, anticipate the financial crisis of 2008, or chart a workable path to recovery.

The Rational-expectations Model assumes that consumers and producers:

- all inform themselves with all available data
- understand how the world around them operates, and
- will therefore respond to the same stimulus in essentially the same way, thus
- allowing economists to *mathematically* forecast how "representative" consumers and producers behave.

Under this model, market interventions by governments and central banks seem *unnecessary,* even *counterproductive.*

The efficient-markets hypothesis

dominates thinking about *financial* markets:
It posits that the prices of stocks and other financial assets are always "efficient" because they accurately reflect all the available information about economic fundamentals, the stock or housing markets, and speculators with evil intentions *cannot* successfully manipulate markets.

Conveniently, since markets are (therefore) self-stabilizing, there's no need for government regulation of them!

Criticism

Critics point out that these theories tend to omit environmental concerns, play down human irrationality, inefficiency, venality and ignorance- qualities that are hard to plug into a *mathematical* equation that *purports to model human behaviour.*

Further, critics argue these models have a powerful *pro-market bias* as well as a 'scientific' cover- for the promotion of an anti-regulatory political agenda; and for those ideologically disposed to want to reduce government involvement in the economy.

Notre Dame's Prof. Mirowski believes that more rethinking is necessary. "Everyone thought the banks would have to change their behaviour, but they got bailed out and nothing changed. The economics profession has also been bailed out because it is so highly interlinked with the financial profession, so of course they don't change..."

Unlike some disciplines, *economics has no guidelines governing conflict of interest and disclosure.*

In 2010, the Academy Award-winning documentary **Inside Job** exposed several disturbing examples of academic economists calling for deregulation while working for financial-services companies.

New Directions

Perry Mehrling, a professor of economics at New York's Columbia University, is the chair of the curriculum task force at the **Institute for New Economic Thinking** (INET). He says his graduate students at Columbia find little relationship between the mathematical models in class and the world outside the door.

Currently, **the Post-Autistic Economic Network** continues to publish its newsletter, now known as the **Real-World Economic Review.**

It remains a thorn in the side of mainstream economics. In an editorial in January, 2010, the editors called for major economics organizations to censure those economists who:

"through their teachings, pronouncements and policy recommendations facilitated the global financial collapse" and pointed to the *"continuing moral crisis within the economics profession."*

The implementation of a fair, earth-aware, resource-based regulated economics is possible <u>today,</u> but it has been blocked by a 1% elite oligarchy, their courtiers and apologists.

- For more information -

www.monetaryandeconomicreform.ca

OCCUPY

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WHAT IS ECONOMICS?

- **Economics is NOT** a science: it is a subcategory of the study of:
    - moral philosophy (equitable economics)
    - environmentalism (resource economics)
    - political economy (regulatory economics)
- **Economics is NOT** taught properly in schools (since it is taught as a science, which it isn't). So students, the public, and politicians are *misinformed* and therefore act upon
- **Economic models which do NOT** work, resulting in crashes, bailouts...
- **Economics** (not outer space!) is *the final frontier,* the proper exploration and understanding of which will make our future more stable and secure.

...SO...

WHAT <u>IS</u> ECONOMICS?

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OCCUPY