**What’s the use of economics? Introduction to the Vox debate**

**Diane Coyle,** 19 September 2012

*Five years after Lehman’s collapse, economics is under fire both from outside and inside the profession for irrelevance, arrogance and more. This column introduces a new Vox debate focused on two questions: What’s the use of economics, and how should we be teaching it to the next generation?*

If economics emerges from the Global Crisis unchanged, it will lose all credibility. That is certainly not the view of all economists, but many do think so. There are plenty of examples of criticism of our subject from within and without. Some are ill-informed rants, but others – such as the recent article ‘Economics in Denial’ by [Howard Davies (2012)](http://www.project-syndicate.org/commentary/economics-in-denial-by-howard-davies), founding chairman of the Financial Services Authority – must be taken seriously.

However, it is not obvious what shape an effective response to even well-founded criticisms could take. After all, engaging in a professional debate about the content and methodology of economics, supported by research, will take years.

One starting point, identified at a conference organised by the Bank of England earlier this year, is the teaching of economics, beginning with the undergraduate level. Participants included both employers of economists (including the Bank and the Government Economic Service) and academic economists. A book with the pre-conference papers and papers by conference participants is published this month ([*What’s The Use of Economics: Teaching The Dismal Science After The Crisis*](http://www.londonpublishingpartnership.co.uk/index.php?option=com_content&view=article&id=59&Itemid=66), London Publishing Partnership).

**Feedback from the employers of young economists**

Some clear themes have emerged from the conference and the book. One is the extent of employer dissatisfaction with the teaching of economics in universities, for all that economics graduates remain highly employable. Employers of graduates in any subject have some consistent complaints about the lack of certain skills among new graduates, and employers of young economists are no different. For example, the prevalence of poor communication skills is a common theme. Economists working outside the academic world will all need to communicate their technical expertise to non-technical colleagues and customers, so it is a core skill for them. For example, in a 2012 survey of economists in the Government Economic Service – the single biggest employer of economists in the UK – they described the two main areas of their work as the production of briefing material and the preparation of policy advice. City economists and economists in consulting will often have to present research to their firm’s non-economist clients.

Perhaps more surprising is the consistent view among all the employers, as well as some of the academics, that undergraduates need to learn more about both economic history and the history of economic thought, and moreover to be made to pay attention to the economic conjuncture, to economic institutions, to the operation of actual markets in the economy and current policy debates. For instance, as Stephen King, Group Chief Economist at HSBC, put it: “Young economists arrive in the financial world with little or no knowledge of how the financial system operates. This is a matter of collective guilt. Economic models typically assume the financial system is a black box.” Although employers all recognise the need to be realistic about fitting more into the curriculum, and about what a new graduate can reasonably be expected to know, the level of dissatisfaction with current shortfalls is striking.

These gaps in graduates’ knowledge seem not to be due to any lack of interest in economics on their part. In the UK, the number of students beginning an undergraduate degree in economics rose 8.5% to 7,800 in 2011, compared with a 1% rise in the total number of undergraduates, and although the number declined by 2% in 2012, this compared with a 7% decline in the total. The number taking the economics A level has been rising since 2006. It is hard to believe that these figures do not reflect young people’s interest in the dramatic economic events of recent years.

**Questions about methodology**

A second theme is the way the crisis has given added urgency to some questions or doubts about economic methodology. It is probably true to say that a majority of academic economists do not believe the financial crisis seriously undermines the theoretical framework of their discipline. Even so, a number of participants raised concerns about the emphasis on reductive rather than inductive thinking in economics, and about the use of mathematics without meaning.

Andrew Lo of MIT argues that mathematical techniques in economics only gain meaning from application to actual empirical questions and should be taught in that context. Paul Seabright of the Toulouse School of Economics says students must be taught not that economics is an ever more successful approach to true knowledge about how the economy works, but rather as an empirical investigation of an ever-evolving phenomenon. There was a strong consensus on the need to demote the role of theory and promote empiricism. As Andrew Lo expressed it: “We economists wish to explain 99% of all observable phenomena using three simple laws, like physicists do, but we have to settle instead for ninety-nine laws that explain only 3%, which is terribly frustrating.”

**Role of macroeconomics**

On the third area, the role of macroeconomics, there was little consensus, but rather a wide array of opinions. These ranged from the view that modest adjustments to the existing models and curriculum would suffice to take account of recent real world economic events, all the way to the more radical view that a new methodological approach to modelling the macroeconomy is required. What to teach on macroeconomics is obviously a secondary question to the current debate about macro analysis (covered in some detail by Simon Wren-Lewis on his [blog](http://mainlymacro.blogspot.co.uk/), for example).

However, when Benjamin Friedman of Harvard describes pre-crisis macro as “wrong headed” and Andrew Haldane of the Bank of England describes representative agent models with expectations reflecting fundamentals as “fundamentally ill-suited” to today’s worlds, it would take someone who is either very confident or very complacent not to reflect some of these doubts in what they teach the next generations of economists.

Changing the teaching of economics courses in universities faces numerous hurdles, and reforming the content of the curriculum may not even be the hardest to overcome. Universities in many countries face financial challenges at present, needing to teach more students with no additional funding. So the demands on academics’ time are increasing. In the UK university system and elsewhere, there are also strong incentives for academics to devote their time to research rather than teaching. What’s more, their research profile and promotion will benefit from their publishing a large number of papers that are incremental to an existing literature. According to academic contributors, the UK’s Research Excellence Framework keeps researchers focused on writing papers, not books, and also on quite a narrow range of journals.

Meanwhile, student surveys suggest many are already rather dissatisfied with the extent of their contact with lecturers or the quality of teaching. In addition, where they face incurring large loans to pay fees, they are becoming more instrumental about their university education: it needs to ensure they do well in their exams and get a good job. Finally, undergraduates are the product of a schooling that has strongly emphasised ‘teaching to the test’ to improve school results in league tables, rather than encouraging intellectual exploration and independent study.

A number of contributors suggest practical steps, not all that time-intensive, to improve undergraduate teaching. Mechanisms for sharing best practice and making use of online resources are among them. As Michael McMahon of Warwick University points out, however, students themselves need to appreciate that in order to benefit in the fullest sense from university, they need to read widely, engage in discussion and above all stop expecting to be spoonfed. As for wider reforms of academic incentive structures, they are under discussion by a post-conference working group that plans to issue a report next year making recommendations for reform.

Economists are in the best position to understand the intellectual power and rigour of our subject, and its ability to contribute to tackling the enormous range of challenges in problems in today’s world, not least the continuing financial and economic crisis. Any intellectually honest economist will acknowledge that the length and severity of the crisis demand at least a certain amount of professional introspection and self-evaluation. Many will agree that economics does need to change. Surely the education of young economists is the best place to start?

**References**

Davies, Howard (2012), “[Economics in Denial](http://www.project-syndicate.org/commentary/economics-in-denial-by-howard-davies)”, ProjectSyndicate.org, 22 August.