Why economics is too important to be left to the (academic) economists

rt.com/op-edge/415723-blues-economists-economics-crisis/

Steve Keen, 12 Jan, 2018

Steve Keen is an Australian economist and author. He's professor and Head of the School of Economics, History and Politics at Kingston University in London. You can support his attempts to build a new economics https://www.patreon.com/ProfSteveKeen.

Modern Economics is as conformist, and bland, as country and western music. This leaves radical thinkers singing the Blues as their voices go unheard.

I've had an epiphany about my place in the Universe, and I owe it to the Oxford Review of Economic Policy and its special issue on "*Rebuilding Macroeconomic Theory*." I am Elwood Blues, and the Universe (the part I inhabit anyway) is Bob's Country Bunker.

Halfway through the classic movie The Blues Brothers, Jake Blues cons the band into performing at a bar called Bob's Country Bunker. When his incredulous brother Elwood asks the bar owner's wife "*What kind of music do you usually have here?*" she cheerily replies "*Oh, we got both kinds. We got Country and Western*".

So that's it. I'm a Blues singer, and I'm surrounded by Country and Western fans— otherwise known as Mainstream Economists. Their musical spectrum ranges from Hank Williams to Dolly Parton, and if I play anything outside it — say, some Otis Redding or Muddy Waters — they'll throw beer bottles at me. Sometimes, even full ones.

Suddenly, it all makes sense.

This epiphany arrived, not as a Divine revelation, but as a tweet (as they would, were Moses alive today; so much more convenient than stone tablets) on January 1, as the Review touted its soon-to-be-released special issue.

> In the spirit of new year's reflection and creativity, it's only four days until the release of Rebuilding Macroeconomic Theory, our big new issue! Share and follow us here at @OxrepJournal to get it FREE and hot off the press on 5 January pic.twitter.com/qUn1uskiRm
>
> — Oxford Econ Policy (@OxrepJournal) January 1, 2018

Establishment Only

My instant response, on seeing this Table of Contents, was that there was "*Nobody from outside the mainstream here.*" There was no Stephanie Kelton from the Modern Monetary Theory school and no Complex Systems economist (such as myself).

> Nobody from outside the mainstream here.
>
> — Steve Keen (@ProfSteveKeen) January 4, 2018

There was no Marc Lavoie (today's leading exponent of the sectoral balance approach that the late Wynne Godley used to warn that a macroeconomic crisis was inevitable, well before the 2008 crisis hit).

But like Bob's wife behind the bar, the editors of the journal assured me that I'd find "*a wide range of varied and innovative angles on the failure of pre-crisis macroeconomic thinking and how to respond!*"

> I will. Would you consider publishing my critique?
>
> — Steve Keen (@ProfSteveKeen) January 4, 2018

This tweet hummed with all the enthusiasm of Mrs Country Bunker Bob's extolling the virtues of Country AND Western music. As it turns out, it betrayed a similar degree of knowledge as to the economic spectrum.

There were certainly earnest attempts to come to grips with the failure of mainstream macroeconomics to anticipate the 2008 crisis, and its aftermath of extended stagnation. But of all the papers, only one (written by Andy Haldane and Arthur Turrell from the Bank of England, rather than an academic economist) deviated fundamentally from the core elements of the mainstream approach, which…

Whoa! Sorry, I had to duck a beer bottle hurled my way. Some guy in a checked shirt (it could have been Simon Wren-Lewis, or maybe Noah Smith) saying that I'm caricaturing the mainstream! We do all sorts of unconventional stuff these days, he claims: insights from behavioural economics, information asymmetries (don't ask), non-profit-maximizing behaviour.

Blind Faith

I'll just play a blues riff back: what you think is non-mainstream is just the frippery that can surround it, without changing its fundamental Country and Western chords. It's not even Whitney Houston putting a Rhythm and Blues twist on Dolly Parton's I Will Always Love You. This sentence from the introduction to the volume makes my point:

> *As already noted, we think that four key points were made by our contributors: the need for financial frictions in the model, a need to relax the rational expectations assumption, the introduction of heterogeneous agents, and underpinning the model with more appropriate microfoundations. (page 21)*

Translating the first and last phrases, they mean that:

• *"(1) We continue to believe that the economy is inherently stable, but its equilibrium can be upset by shocks from outside the economy; we continue to pretend that the financial sector is outside the economy, but (rather than fantasizing that it worked perfectly and* *could therefore be ignored, as we used to) we now think that it's one of the things that can slow down how quickly the economy returns to equilibrium after a shock; and*

• (4) Macroeconomics, the theory of how the economy operates at the aggregate level, still has to be derived from our theory of how individuals in it behave; we just need to consider a wider range of models of how individuals behave." [I omitted translating (2) and (3) because I don't want you to nod off and alert the office to the fact you're reading this instead of working]

This is still well within the mainstream of economics—and to their credit, the editors do admit that "*we do not think that there needs to be a paradigm shift*" (page 4). But you can't rule out a change in the music if you won't even consider that anything other than Country and Western is music.

And sorry pardners, but there is economic music from outside the Neoclassical Country and Western songbook. To play some tunes that "*ain't no Hank Williams song*", there are at least three other approaches to economics that should have been represented in this volume if it were to live up to its editors' hype that it contains "*bold and varied*" arguments:

• The "Modern Monetary Theory" approach, which starts from understanding the accounting rules that allow both the government and private banks to create money, and argues that the government should normally spend more than it taxes, since this creates fiat-based money that is needed if the private sector wants to save money;

• The "Sectoral Balances" approach, that builds macroeconomic models of the stocks and flows of money and debt (and goods) in the economy, and can use these—as Wynne Godley did—to warn of financial crises caused by sectoral imbalances; and

• The Complex Systems approach to economics that I take, which derives macroeconomic models directly from the structure of the economy itself; and results in models which have unstable equilibria and can suffer debt-deflationary crises, like the Great Depression and the 2008 Great Recession.

Paler Shade

None of these approaches rate even a mention in this volume, except in said paper by the Bank of England's Messers Haldane & Turrell. Nor does the work of Hyman Minsky (remember him?)— again, except in the Haldane/Turrell paper. All other references to Minsky in this volume are to a paper by Paul Krugman in 2012 which had Minsky in its title, but not its soul.

A decade ago, mainstream economists were falling over themselves to say that they were applying the insights of this iconoclast, who stridently disavowed the mainstream. Now they're back to ignoring him. Unfortunately for those of us who live in the real world, Minsky's acerbic observations on the economic mainstream in 1982 apply just as forcefully to the "bold and varied" Country and Western tunes in the Bob's Country Bunker that is your typical academic economics department:

> Instability is an observed characteristic of our economy. For a theory to be useful as a guide to policy for the control of instability, the theory must show how instability is generated. The abstract model of the neoclassical synthesis cannot generate instability. When the neoclassical synthesis is constructed, capital assets, financing arrangements that center around banks and money creation, constraints imposed by liabilities, and the problems associated with knowledge about uncertain futures are all assumed away. For economists and policy-makers to do better we have to abandon the neoclassical synthesis. (Minsky 1982, p. xx)

So I'm going to continue singing the Minsky & Complex Systems Blues, but I'm giving up singing it in the Country and Western dives that modern university economics departments have become. There's just no point in trying to persuade them that other forms of economic music exist, let alone should be developed into the new paradigm that economics desperately needs.

As the lone Haldane and Turrell song in this Neoclassical album indicates, the only concerted efforts to develop a genuinely new paradigm in economics are coming from Central Banks and Treasuries which, unlike academic economists, have to occasionally answer for choosing the wrong music in the Real World bar.

Now where did I put my sunglasses?