

Υπόψη κυρίου Δημήτρη ΠΑΠΑΟΥΛΙΑ

Από: Μπάμπη ΠΑΠΑΔΗΜΗΤΡΙΟΥ
Οικονομικός Ταχυδρόμος
Τηλ.:
Φαξ:

Ερευνα - Μηνιαίο Αφιέρωμα «Καλημέρα Οικονομία»

«Προσφέρει η οικονομική επιστήμη ικανοποιητικές απαντήσεις στα μεγάλα και μικρότερα πρακτικά προβλήματα της κοινωνίας και της οικονομίας;»

- Παρακαλώ να έχω την απάντησή σας (από 200 έως 400 λέξεις) μέχρι την 16^η Οκτωβρίου.

Ευχαριστώ.

Χ.Α. Παπαδημητρίου

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Arao:

Htaikun Nau.

The puzzling failure of economics

IF THE world were run by economists, would it be a better place? You might expect economists, not to mention a newspaper called *The Economist*, to think so. After all, many of the policies that people fight over have economics at their core—jobs, wages, investment, growth. Economists, professional and otherwise, are forever criticising those who do run the world for making such a mess of it, and are keen to change the way people think so that things will be run more to their liking. As one Nobel laureate put it, "I don't care who writes a nation's laws... if I can write its economics textbooks."

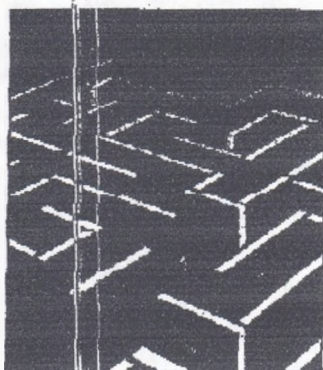
Paul Samuelson, the author of that remark, has seen his wish fulfilled. His "Economics", first published in 1948, has sold millions of copies and is still, with its 16th edition in preparation, doing well. Down the editions, the book's views on policy have changed, as have those of the profession at large (see page 60). These shifting ideas have in turn influenced policy, and to a degree that would make other social scientists drool. Lately the results have been good. During the past decade, some of the worst economic incompetence has ended: central planning has given way to "transition economics" in Eastern Europe and the former Soviet Union; many developing countries have opened their economies to the outside world; every week another state-run company is put up for sale. Textbook wisdom seems to prevail.

The message and the messenger

But don't praise the dismal scientists too much. Who designed those earlier policies, which failed so disastrously? Economists. Where were those theories of planning, of demand management, of industrial dirigisme and public ownership that did such harm in the third world so persuasively set out? In economics textbooks.

These days, it is true, the advice is better—but it often gets dangerously garbled in transmission. Trade is the best example. By pitting exporters against importers, successive rounds of trade negotiations have encouraged politicians in many countries to lower trade barriers. Yet this effort is based on a false premise: that freeing trade is good for you only if other countries do the same. This basic misunderstanding, left unattended, may one day lead governments to turn back the clock on liberal trade.

Other good policies have likewise been founded on bad economics. Privatisation, for instance, has more often been seen as a way to raise revenue than as a way to promote competition; and deregulation is often portrayed by governments as something that global markets have forced upon them, rather than as a way of raising living standards. As for bad policies based on bad economics, these remain too numer-



ous to mention, despite Mr Samuelson's prodigious efforts.

Why has economics not done better? Economists tend to blame others for being too lazy or too stupid to understand their textbooks. There is doubtless something in this. Economics is hard to teach well. To the uninitiated, its basic principles often seem surprising or odd. And whereas most people will admit their ignorance of physics or biology, the armchair economist is convinced that he knows exactly what he is talking about.

But the economics profession itself also deserves much of the blame. Crucial ideas about the role of prices and markets, the basic principles of microeconomics, are uncontroversial among economists. These are the first ideas that politicians and the public need to grasp if they are to think intelligently about public policy, and the fact is that they are not widely understood. Yet because economists take these essential ideas for granted, they spend their time arguing about much more contentious notions, developed in one disputed way or another from those common underlying principles. The public and their politicians are treated to perpetual squabbles about the exact effects of raising interest rates or of cutting the capital-gains tax or whatever—and conclude that economists disagree about everything and understand nothing. As long as economists choose to talk loudest about the things they understand least well and to remain silent about the underlying ideas that unite them, this is unlikely to change.

And economists must shoulder a further portion of the blame for quite another reason. The biggest economic-policy mistake of the past 50 years, in rich and poor countries alike, has been and still is to expect too much of government. Statism has always found all the support it needs among mainstream economists. They are unfailingly quick to point out various species of market failure; they are usually much slower to ask whether the supposed remedy of government intervention might not, in practice, be worse.

This is not a failure of economics, in fact, but of modern (one might say Samuelsonian) economics. The classical economists viewed the market economy with a kind of awe. Amazing, it truly is, that all these workers, firms and households, acting without visible co-ordination and guided mainly by self-interest, manage to produce such extraordinarily beneficial results. Smith's "Wealth of Nations" conveyed this sense that the market, for all its "failures", is a marvel. Today precious few textbooks even try to guide their readers to any such inspiration. Implicitly, at least, their message is too often quite the opposite: that markets aren't perfect and governments (advised by economists) can be. Dismal is the word.