WILL ECONOMISTS REPLACE LAWYERS AS FIRST AGAINST THE WALL?

> *The field [economics] is filled with anxious introspection, prompted by economists' feeling that they are powerful but unloved, and by robust empirical evidence that they are different.*
> The Superiority of Economists, by Marion Fourcade, Etienne Ollion and Yan Algan.

In this post at Naked Capitalism, I explain that one big reason normal people don't love economists is that they refuse to take any blame for causing the Great Crash. As a group, economists insisted that it would be great to tear down the New Deal financial regulatory system, without ever considering the potential costs of a crash. It wasn't just that their models didn't predict the Great Crash, it's that their models won't ever predict crashes. Until someone got around to tweaking them, their models did not even predict the damage a crash might cause. They had no way to evaluate the costs of crashes, but they ignored those costs, mostly on ideological grounds. They insisted to policy makers, legislators, regulators and politicians, and not least, their wealthy supporters, that things would be great if we just got rid of regulation. They were proven absolutely wrong. Then they insisted that more of the same garbage was the right solution, and their supporters agreed. And so it came to pass that we got a lousy recovery that only benefited their patrons. But that's hardly the only reason people don't love economists.

You'd expect some self-criticism from even the most narcissistic economists in the wake of their utter failure, but that didn't happen.

Here's an interview of Gary Becker of the University of Chicago in December 2010 by economist Catherine Herfeld who begins by asking him whether the economics profession is in crisis. No, says Becker. Economists might begin to consider some mildly different problems, maybe, but no. Models can't be expected to predict crashes, he says, and people respond to incentives. Economists already knew those things, so the Great Crash has no lessons for them.

Almost all economists agree with Becker's two points. Their models and their methodology are not a problem, and do not require major changes. One crucial assumption of economists is that consumers are rational actors. When Herfeld presses Becker on the issue of the validity of that assumption and the risks that assumption entails, Becker explains so what? What's your theory? "You need a theory to beat a theory," he says. Policy advice based on Becker's theories has been tried out. That advice sucks. We'd have been better off doing nothing than crashing the economy as an empirical test of his assumptions and the theories based on them. So, no. You don't need a theory to beat a theory. Adults change their minds when their ideas fail. That's another reason people despise these guys.

But that kind of intellectual arrogance is typical of economists, as we learn from *The Superiority of Economists*, by Marion Fourcade, Etienne Ollion and Yan Algan. The authors show that as a group economists are known for their absolute confidence in their ability to understand the economy and prescribe for us lesser mortals. They also show that economists are an insular group, not much interested in the work done in other fields of study. Here's a demonstration of that. Herfeld asks Gary Becker this question:

> [R}ationality is a concept that originated in philosophy and its various economic formulations and uses have been discussed extensively in the

> philosophical literature on the methodology of economics, such as by Alexander Rosenberg, Philip Mirowski, D. Wade Hands, and Mark Blaug. Were you ever interested in that literature? Or where did you get inspiration from when thinking about improving how rationality is conceived of in economics?
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> [Becker] Primarily, I get inspiration from my own discipline, economics. For example, I wrote my doctoral dissertation on racial discrimination. …

Becker can't see any reason to learn what scholars in other fields think of rationality, or, apparently, racial discrimination, or anything else, for that matter, because, you know, he was a student of Milton Friedman, and he read Popper and Carnap. The rest of this answer and the next few show how Becker conceives of the intellectual life. It is exactly what Fourcade et al. describe, insular, hierarchical and to me at least, undeservedly arrogant. They describe the influence of economists in a lengthy section including this:

> The upshot of economists' confident attitude toward their own interventions in the world is that economics, unlike sociology or political science, has become a powerful transformative force. Economists do not simply depict a reality out there, they also make it happen by disseminating their advice and tools. In sociological terms, they "perform" reality. Aspects of economic theories and techniques become embedded in real-life economic processes, and become part of the equipment that economic actors and ordinary citizens use in their day-to-day economic interactions. In some cases, the practical use of economic technologies may actually align people's behavior with its depiction by economic models. By changing the nature of economic

> processes from within, economics then has the power to make economic theories truer. Cites omitted.

So, there’s a third reason to loathe economists. They think human nature can and should change to match their models and their value systems, which are based on economic efficiency and unfettered markets. I don’t agree. Among other things, as I discuss in detail here, markets deal only with short run decisions, not with the long-term consequences of those decisions, which can easily lead to disastrous results. Just ask yourself how markets will allocate precious ground water in California, and ask how many almonds and how much cheap oil today are worth the end of the water supply that grows much of our food.

Here’s the fourth reason. Of course people respond to incentives, though that’s just one of a large number of influences on decisions. The question is who comes up with the incentives. Becker points out that people who took out subprime loans were responding to incentives, as if those borrowers caused the Great Crash. Who set those incentives up? Was it the poor people who got clobbered by those loans? Of course not. It was the lenders who were freed from all restraints by economists and their enablers among the rich and the politicians. Those economists who provided the policy justifications had no conception of the risks they were encouraging others to take while they pocketed their consulting fees. And after the crash, they, and specifically Becker, defended themselves by blaming the victim.

No wonder normal people don’t care for these people.