

The Econocracy

Chapter 2: Economics as indoctrination

1. Economics as a complex science, the mastery of which gives people the authority to govern (capitalist) society
2. This authority comes from formal education, training and qualifications – therefore those in positions where the decisions over how to teach economics are in a privileged position in terms of their ability to produce and reproduce the criteria according to which authority to govern is judged
3. That is, they can set the terms of indoctrination in contemporary capitalist society
4. When students enter the discipline of economics, it is the realisation that they are the subjects of indoctrination – not critical learners seeking to improve their understanding of the economic sphere – that represents one of the most important shocks that they must overcome:
‘Students may wonder why it is necessary to detach the study of economics from reality in this way, but they must also learn to inhabit this parallel universe if they want any hope of passing their exams’.
5. This involves - rote learning of assumptions:
 - a. World made up of utility-optimising agents
 - b. Leading to equilibrium
6. The Post-Crash Economics Society as a recognition that all of the above has nothing to do with learning about how the real world works.

This chapter presents an exploration of 7 Russell Group universities’ economics modules (174 modules) to show that the above summary is the process that is being applied to all economics students.

“Tomorrow’s experts are being taught only one perspective as if there were no other way of doing economics. Critical and independent thinking is discouraged and there is little or no history, ethics or politics in economics courses.”

Neoclassical economics

3 central elements:

- Individualism
- Optimisation
- Equilibrium

2 main features:

- Knowable predictable forces
- Economy as a standalone abstract system that emerges naturally from the actions of individual agents (nothing on history, institutions, motives)

One problem:

- A quantified, monetised measure of ‘utility’, which prevails in economics, ignores other (more difficult to quantify in monetary terms) types of human well-being – e.g. human rights, job security, mental health

The monopoly of neoclassical economics

Each programme consists of:

- Microeconomics
- Macroeconomics
- Maths/stats/econometrics

Microeconomics focuses on households, firms, industries, markets – no actual contact with any of these phenomenon:

‘If economists wished to study the horse, they wouldn’t go and look at horses. They’d sit in their studies and say to themselves, “What would I do if I were a horse?”’

Ronald Coase

This is taught through mathematical problems. The most basic of which is the supply and demand graph. The study of economics then becomes an exercise in identifying ‘market failures’ which have prevented equilibrium from coming about.

This doctrine then feeds into government policy – e.g. Treasury Green Book identifies government aims in economy as ‘efficiency’ and ‘equity’ – to be achieved through cost-benefit analysis.

Macroeconomics ‘deals with bigger questions such as how countries can establish and sustain long-term growth, how they can control short-term economic fluctuations (commonly known as ‘boom and bust’) and how they can manage unemployment and inflation’. – But, again not historical or empirical, but instead abstract models. Two key areas – how to achieve long term growth; and how to manage short term boom and bust.

Solow Growth Model: different factors produce growth (especially technology and natural resources) → ‘Endogenous Growth Theory’. Skill levels → improved technology → growth. [simple :-)]

Short term(1): IS/LM model – interaction between markets for goods and services (IS) and market for money (LM) leads to output (GDP)

Short term (2): seek to deal with ‘exogenous shocks’; normally best left in the hands of independent Central Banks - ‘Barro-Gordon’ model confirms this (keep it out of the (politicised) hands of the politicians)

Textbooks as bibles – Hal Varian, Hugh Gravelle, Ray Rees, Greg Mankiw, Stephen Williamson



Assessment: operate a model (c.60%); describe (c.15%); MCQ (c.15%); evaluate (c.10%)

What isn’t taught:

- IMF/World Bank
- Great Depression, Bretton Woods, E Asia financial crisis, end of Gold Standard
- Apple/Glencore
- Big companies' names
- GDP, real wages, Gini, poverty, unemployment, trade, inflation, deficit/debt rates
- How to measure statistics
- Debates – e.g. impact of immigration, EU, Eurozone crisis
- Causes/consequences of 2008 crisis

'Economic experts are at the heart of econocracy. Yet their understanding of the world is often limited to a fixed set of models, taught in a manner that is almost completely disconnected from the real world.

...

The result of teaching students only the neoclassical way of thinking is that economic experts have no critical perspective on the limitations of their expertise.

Chapter 3: Beyond neoclassical economics

Pluralism necessary both to enable critical thinking; but also to adhere to standard academic practices.

9 different approaches:

- 'old' neoclassicalism
- 'new' neoclassicalism
- Post-keynesianism
- Classical
- Marxist
- Austrian
- Institutional
- Evolutionary
- Feminism
- Ecological

On the 2008 crisis: 'although banks, politicians and individuals all undoubtedly hold some responsibility for what happened, we believe that at a fundamental level the crisis represented a failure of economic ideas'.

Macroeconomics unable to foresee 'exogenous' shocks

Minsky's Financial Instability Hypothesis better explains this – stability sows seeds of instability as investors become over-confident; Keynes adds 'animal spirits' more generally.

'Efficient Markets Hypothesis' as an attempt to excuse the economics discipline

On environment – most don't study it; when they do it's via neoclassical economics ('environmental economics') – in which environmental costs are externalities that are under-valued by the economy and therefore need monetary values to be attached to them; 'revealed preferences' method as a way of assigning a monetary value, especially as a result of the so-called 'discount rate'

On inequality – difficult to model, sometimes ignored (e.g. in discussions of Pareto optimality)

The politics of neoclassical economics

'Pluralism is necessary because, by providing different ways of thinking about economics, it forces people to question how they think and brings issues that are often taken for granted back into the sphere of political discussion'.