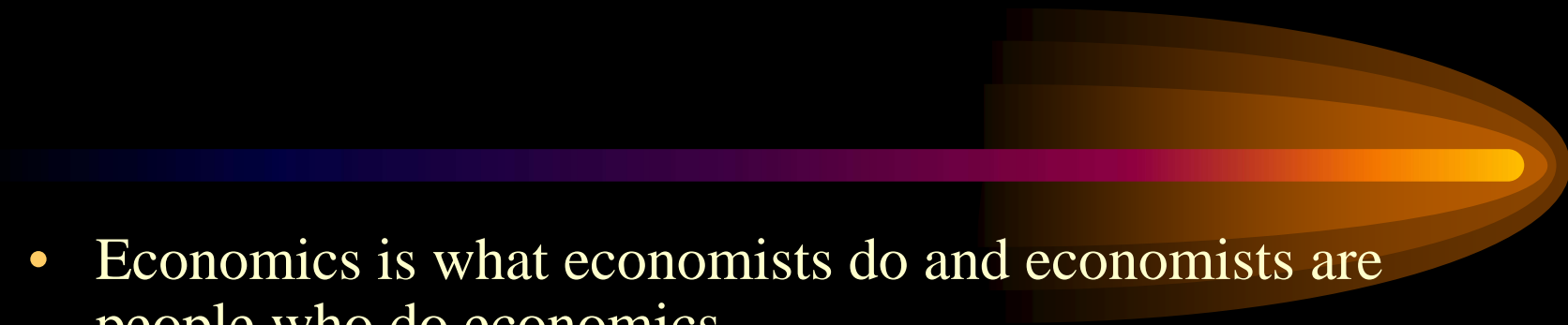


What use are economists?



- 
- Economics is what economists do and economists are people who do economics...
 - Jacob Viner (attrib)
 - *”economics is the study of the economy, the study of the coordination process, the study of the effects of scarcity, the science of choice, and the study of human behavior.”*
 - Backhouse, Roger E., and Steven G. Medema. 2009. "Retrospectives: On the Definition of Economics." *Journal of Economic Perspectives* 23, no. 1: 221-233.
 - No license, organization, not a profession, a mode of thinking and discourse

What should it do?

- Predictive v Explanatory drives as theory drivers
- Friedman methodology
 - Premium on predictive power and theoretical fruitfulness
 - Economics then is evidence based not emotive (but emotion is itself evidence...)
- economics then positive (what is) not normative (what should be) ;
- this doesn't preclude value judgements but these should be supra the economic judgement of what is
- Implication is a tendency towards greater and greater mathematisation and formalization.

(Irish) economists of the past

- major irish economists of past, their influence on *what* and how we think
- Some major thinkers in the past and hopefully in the future
- Ireland has a great tradition of economic thinking and philosophy

Famous irish economic theorists and thinkers....

- **Sir William Petty** (27 May 1623 – 16 December 1687)
 - Mercantilism, bullion, FX, protectionism
- **Richard Cantillon** 1680-1734
- **Samuel Mountiford Longfield** (1802 - 1884)
 - Proto marginalist, comparative advantage after Ricardo
- **John Cairnes** 1823-1875
 - Law and economics, deductive v inductive reasoning, distrust of political economy
- **Thomas Edward Cliffe Leslie** (1826 –1882)
 - Empiricist, inductive reasoning, historical and cultural basis of economic phenomena not universal

Famous irish economic theorists and thinkers....

- **John Kells Ingram** 1823-1907
 - Sociologist, patriot (“who fears to speak of 98”), methodologist, political economist
- **Francis Ysidro Edgeworth** (1845 – 1926)
 - Mathematical economist, editor, indifference and utility
- **Charles Francis Bastable** (1855-1945)
 - Ricardian, trade theory
- **Robert (Roy) Charles Geary** (1896 – 1983)
 - Statistician, utility modeller
- **William Moore "Terence" Gorman** (1923 - 2003)
 - Mathematical economist

madmen

- The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. *I* am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.
- Distilling has virtues (simplicity) and vices (concentration and drunkenness). Lets look...

Three issues

- On the transmutation of economic ideas
- What is it we think and what is it we want economists to do
- What are the skills of an economist and what should they be

Expansionary fiscal contraction

- The myth : cut and grow
- The reality :
 - Cut
 - Devalue
 - Export
 - Introduce social partnership
 - Windfall tax (first amnesty)
- Does this mean a stimulus?
 - NO : Carvillnomics say no



fees

- The Myth : fees at third level are the bar to increased participation
- The Reality
 - No strong evidence that this has happened
 - Fees monies went to second level, bumping up effective points for courses

Banking crises

- The myth
 - Anglo=Lehmans, nuclear winter, plague of locusts, the dead rising etc
 - Don't scare the horses
- The reality
 - An applied experiment in the disposition effect

Philosophy of science

- Falsification as an ideal
- Popper is not the only philosopher
- Philosophy of social science also bears on this
 - Kuhn/lakatos show us how hard it is for evidence to change elegant theories
 - Protective belts and paradigm shifts

Zombies...

- All well aware of zombie banks...what of zombie theories?
 - ZT – one which, to all intents and purposes, has been “overturned” but which persists perhaps as voices in the air

Major failure 1

- Macro from micro foundations
 - Salt v fresh water economists
 - S: “keynes” , F “friedman”
 - ‘It was as if, as the Titanic was sailing into iceberg-infested waters, those with the requisite skills and training to warn of the impending danger were instead hard at work, in a windowless cabin, perfecting the design of ship hulls ... for a world without icebergs’ David Gruen, Australian Treasury

Major Failure 2



- Market efficiency
 - “the market can stay irrational for longer than you can stay solvent” Keynes
 - Micro \neq macro efficiency, either in a strict or a general sense
- Bringing back people is key

Major Failure 3

- The great moderation
 - “It is the liberation of markets and the opening-up of choice that lie at the root of the transformation. The deregulation of financial markets over the Anglo-Saxon world in the 1980s had a damping effect on the fluctuations of the business cycle. These changes gave consumers a vast range of financial instruments (credit cards, home equity loans) that enabled them to match their spending with changes in their incomes over long periods. “ Baker, FT 2007
 - Oops...

Less physics, more people, more politics



- The need to restore political economy to the fore
 - Klemperer, Paul, Using and Abusing Economic Theory. Journal of the European Economic Association, Vol. 1, pp. 272-300
- The need to incorporate people
 - Physics envy, is this desire to be able to explain 99% of all economic phenomenon with 3 laws. That's what physicists can do. In fact we (economists) have 99 laws that explain maybe 3% of all phenomenon." Andrew lo

More like psychology?

Psychology

Psychology is based primarily on observation and experimentation.

Field experiments are common.

Empirical analysis leads to new theories.

There are multiple theories of behaviour.

Mutual consistency among theories is not critical.

Economics

Economics is based primarily on theory and abstraction.

Field experiments are not common.

Theories lead to empirical analysis.

There are few theories of behavior.

Mutual consistency is highly prized.