Funding the Future

Economists can’t solve the economic problems they mad...

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We are living through an economic crisis. Inequality is growing, public services are failing, climate change threatens our future, and economic insecurity is becoming normal. So why can’t economists tell us how to solve these problems?

I think the answer is deeply uncomfortable for the economics profession.

In this video, I argue that mainstream academic economics is trapped in models that do not describe how the real world works. Economists assume rational individuals, efficient markets and economic equilibrium, while frequently failing to understand money, power, institutions and the environment.

But there is another problem. Universities train economists to work within these models rather than challenge them. Academic careers depend on publishing research that conforms to established thinking. The result is an intellectual system that rewards conformity when we desperately need imagination.

I explain why my own experience across accounting, political economy and sustainability has convinced me that the answers to our economic problems will not come from economics alone.

We need to combine economics with sociology, environmental science, history, politics and other disciplines. We also need to reconsider what academic research is for, particularly as artificial intelligence changes the value of traditional academic skills.

The question is not whether we need more economists. It is whether economists can learn to think beyond economics.

https://www.youtube.com/watch?v=MJeh2RWEj1A?si=TV8Ms29qzlZdIDXt

This is the audio version:

https://www.podbean.com/player-v2/?i=cq89s-1bc0d37-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

We know, you know, I know we are in an economic mess. There's no question about that. The economy is not working. It's not working for ordinary people. It's working incredibly well for wealthy people. It's working very well for large companies, but not for small ones. We have to solve the problems.

And on top of those issues I've just mentioned, there's climate change, inequality, poverty, failing public services, and economic insecurity.

And who's going to sort out the mess? It seems that people think that academic economists should. Well, I'm going to tell you something very simple and straightforward in this video. I don't think they're able to do that. And I think there are two reasons.

First, they're trapped in their own existing economic model, and that has created the crisis that we live in and cannot explain the consequences that we see all around us.

And secondly, their academic training discourages them from thinking beyond that model. The reality is that if we're going to solve the problems that the world faces, we need multidisciplinary solutions spread across a whole range of understanding and not more economics of the sort we've already got. This is the issue that I'm tackling in this video.

So let's talk about why economics is trapped in its own model.

Mainstream economics starts with assumptions about how the economy works. It assumes that there are rational individuals. It assumes that there are efficient markets which work perfectly. It assumes that putting these two things together, rational individuals and perfect markets, can produce an outcome called 'equilibrium', which is nirvana in economic terms, the perfect world. It does that whilst managing the problems of scarcity and optimisation of resources. And all of these assumptions about what economics is for shape the questions that economists ask. But they also determine which answers are considered acceptable.

The problem is, the real world does not behave in anything like the way these assumptions and this model suggest. Money, power, institutions, uncertainty, and the

environment are all inadequately understood or ignored in this model, and that might surprise you. But money is probably the biggest omission from most economics. If your model is wrong, refining it will not produce the answers we need. And the simple fact is that most of the economic models that most academic economists use are wrong. They're based upon false assumptions of how people behave, how markets behave, how societies behave, and what resources we've got available. Apart from that, they're perfect. But in practice, they're absolute rubbish.

So what are the issues that this gives rise to? This is where academic training becomes a problem because PhD students, those who go on to become our academic economists, are encouraged to supposedly undertake original research. But at the same time, those students are required to work within an established academic framework and within its literature.

The questions they can ask when undertaking their PhD, Doctor of Philosophy studies, must satisfy their supervisors and their examiners. And their careers will depend upon publishing in recognised journals, what I call the academic-industrial complex, because this is how you make advances in academia. And trying to challenge the foundations of a discipline is risky when you're going to try to publish in its own journals, which require, for their survival, that the discipline go unchallenged.

In that case, making small additions to accepted knowledge is much the safer route for young academics, and that is the way in which economics has developed. It has become ever more inward-looking, ever more concentrated on improving its obviously false models, and the system rewards conformity when what we so obviously need is imagination.

Now, in that case, economics claims an authority it does not deserve, and that is the problem, because economics works inside a silo. It claims authority over questions that require knowledge from many disciplines. Economists advise governments on healthcare, education, climate change, public services, and almost everything else that touches on your life.

But very often, they approach these issues through the same narrow focus and their own economic models. They assume that prices, incentives, markets, and efficiency provide the answers. But healthcare requires medical knowledge, sociology, and an understanding of human need. Climate change requires ecology, engineering, science, and an understanding of planetary limits. Inequality requires an understanding of power, politics, law, and social structures. And economics cannot claim to have the answers whilst refusing to learn from these other disciplines, and yet that is what it does. It sticks to its silo.

And the problem is not just academic specialisation. It is the intellectual arrogance that goes with it. Economists claim they know the answers. They don't, and that is my absolutely certain view, having seen the whole system from the inside.

And I stress, I'm saying all of this based upon some of my personal experience. I have been a professor of international political economy, accounting, and sustainability. And I have not got a PhD in any of these. But that has not prevented me from researching, publishing, or developing new ideas. My Google Scholar ranking, which is a record of my achievement in publishing as an academic, compares pretty favourably with many lifelong academics. My point is, I succeeded, but not because of my qualifications.

It's because I work across disciplines, and that, plus my real-world experience, has shaped how I think. Accounting has informed my understanding of economics. Political economy has informed my understanding of accounting. Sustainability has challenged my assumptions in both. The connection between disciplines is where new ideas emerge, and that's what's lacking inside the world of economics now.

And AI is making this problem ever more obvious, and actually, in this case, in a useful way, because so much of what young academics have to do is to learn the existing literature in their discipline. And that is what economics demands of people. They must know what has been written before. They spend a great deal of time learning it. That becomes their key skill, and therefore becomes what they want to teach and what they want to maintain.

But simply knowing what others have written is becoming less distinctive in the world of AI because it can do that research for you. And this core skill is therefore becoming almost irrelevant. The most important questions being asked now are completely different.

Economists should be asking, "What have we failed to understand?" That's a much more important question than saying, "What have we read?"

They should be asking, "What assumptions are wrong?" That's a much more important question than reinforcing them.

And they should be asking, "What connections have we missed?" But that means they look outside their discipline, and that's not what they're trained to do.

And they should be looking for knowledge from other disciplines to provide insight into economics to provide better answers.

The fact is, we need people who can go beyond existing knowledge and not simply reproduce it, and AI is going to make that very clear. And that, in this case, is one reason why I celebrate it.

And the fact is, we need a revolution in economic thinking. Nothing short of that will do. We do not need more economists refining models that have failed us. We do need people willing to challenge the foundations of economic thinking, and that means they have to understand money, accounting, institutions, and power. And they should

integrate economics with environmental science and ecology. It means understanding sociology, psychology, politics, and history. It means asking what the economy is for and not simply saying how markets might, in theory, work even though they don't in practice. And it means accepting that other disciplines may have better answers to some questions than economics ever has.

That means we must reward researchers who ask these important questions rather than those who merely publish papers. But that would be an academic revolution in itself. We need, in other words, multidisciplinary political economy focused on solving real-world problems.

Is that going to happen? That, of course, is my question. This requires thinking beyond economics.

And our greatest problems cannot be solved within the boundaries of conventional economics as it now stands. Those problems, as they stand, are too interconnected for its silo thinking. They ignore too many issues to be able to provide answers to the questions the world is now posing. Academic economists are trapped inside their models and inside their professional boundaries. And worse, they claim authority over public policy that their limited understanding can never justify.

Universities need to change this approach. They need to change their understanding of what economics is about, what it is for, and the questions it can answer. But that requires intellectual courage and multidisciplinary research. We need people who can imagine how things might be rather than simply explaining existing theories.

The question is not whether we need more economists. It is whether economists can learn to think beyond economics. Until they can, we will be left with dire economic policy that harms us all. And unless by chance you happen to be very wealthy, that's not good enough. Economics is serving very particular interests at present. For everybody else, it's a failure, and that's why it needs to change.

That's what I think. What do you think? There's a poll down below.

Poll

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