

Problems and Principles: Reforming the Economics Curriculum

A project of the INET Economics Curriculum Task Force

Economic theory has always responded to events in the economy. The Keynesian revolution, the monetarist revolution, the emergence of new classical economics, can all be seen as responses to the perceived failure of older systems of thought to give compelling answers to new questions. The sensitivity of economic *theory* to fluctuations in the *economy* has been frequently demonstrated over the last 30 years. It is needed today. Leading neoclassical economists such as Robert Lucas and Alan Greenspan have admitted to being unprepared for the series of collapses that struck in 2007 and 2008. The huge impact of this failure on the real economy and people's livelihoods has prompted an unprecedented demand for a review of economics both from within and outside of academia. Equilibrium economics, it could be said, is in disequilibrium.

Responding to this state of affairs, Robert Skidelsky proposed that INET should explore ways in which the university economics curriculum could be reformed to produce economists better equipped to study real-world economies. This is the purpose of the INET Curriculum Task Force.

The problem has two main parts: why do we need a new curriculum, and what will that curriculum be? In the autumn of 2010, the Task Force's British and American Economic Curriculum Committees (ECC) met to identify the problems with the current economics curriculum and discuss the principles for its reform¹. This paper outlines these foundational problems and principles.

Problems with the current economics curriculum

Instead of teaching students to ask important questions and then look for relevant techniques and literature to find answers, the current economics curriculum often allows the availability of techniques to determine the range of questions asked.

The 'hammer in search of a nail' approach is particularly pervasive in macroeconomics. At the core lie three critical characteristics. The first is the hegemony of mathematical and quantitative tools which act not only as an effective barrier to entry, thereby preventing qualitatively inclined economists from contributing to the conversation, but it also cements an understanding of worthwhile inquiry as that which can be expressed mathematically. The second is a highly abstract axiomatic approach emphasising optimising behaviour, stable preferences and equilibrium. These axioms, while they are indeed useful in some circumstances, are taught as if they were universally applicable, rendering the discipline rigid when it

¹ The members of the UK Committee are: Richard Bronk (joined in Jan 2011), Ha-Joon Chang, Geoffrey Hodgson, John Kay, Felix Martin, Marcus Miller (stepped down in Dec 2010), Robert Skidelsky (chairman) and Christian Westerlind Wigstrom (executive secretary). The members of the US Committee are: Kevin Hoover, Brad DeLong, Joyce Jacobsen, Barbara Craig, Steve Ziliak, Perry Mehrling (chairman) and Daniel Neilson (executive secretary).

needs to be flexible. Third, highly refined textbook models give the false impression of being settled ‘truths’, discouraging the kind of dialectic discourse that could give rise to new approaches.

The rather narrow methodological focus of the discipline is surprising considering that only a small fraction of economics graduates go on to become professional economists. Very few will therefore need the high level of technique which the curriculum currently privileges.

Instead, the curriculum should emphasise the application of economic thought to real world problems. Undergraduate economics courses should produce citizens able to understand economic arguments, the role economic activity plays in social life, the role government plays in the economy, and the relationship between economics and ethics. Students should be made aware of the scope and limits of economics as a social science discipline. A widespread idea which should be challenged is that the purpose of economic models is to produce true rather than useful descriptions of reality.

Of course, this is not only a problem with undergraduate courses. From high-school diplomas to PhD programmes and business schools, the same canon dominates. Indeed, the problem of narrow technical focus is even greater at the graduate than the undergraduate level. First, graduate programmes impose requirements of particular (technical) skills necessary to be admitted which therefore need to be taught earlier on in the academic career. Second, graduate programmes produce the lecturers of undergraduate programmes. Therefore, a comprehensive reform of undergraduate economics, it could be argued, needs to start at the graduate level.

Nonetheless, the Task Force concludes that it can only hope to effect reform by singling out fields which lend themselves to focused action. With time, the ambition is to include graduate programmes, business school and high-school courses – all of which contribute to the way economics is taught and perceived. Yet starting at the undergraduate level is not only a matter of scope. Strategically, it makes sense to start reform at the level with the greatest number of students, and at the level at which the ‘economist’ qualification is awarded. Moreover, as economics undergraduates go into employment in both the private and the public sectors ideas propagated at this level will become influential in both government and industry.

Determinants of the current curriculum design

The undergraduate curriculum is partly driven by the desire of professional economists to reproduce professional economists. Yet the large majority of economics graduates go on to work in banks, consultancy and accountancy firms, and government. Students seeking a career in finance and government privilege the technical/operational, and particularly numerical, skills prized by such employers. To the extent that student demand determines current curricula, it is not surprising that more immediately career-promoting courses in mathematics and econometrics are popular.

Yet the privileging of a certain kind of technical training is not only problematic for society at large; it is also problematic for employers. For one thing, it comes at the expense of institutional knowledge – of how, for instance, the financial and the banking systems work – which is coveted by employers in finance and government. Most graduates emerge ignorant of behavioural psychology, the mathematics of stochastic processes, non-linear analysis, network theory, etc – all of which are most useful to understanding financial complexity. Graduates also emerge largely ignorant of economic and financial history, and therefore with little inkling about the instability of financial systems over time. These gaps can have consequences for economics graduates' ability to assess empirical data. If you do not understand the history or institutions of the economy, how are you able to evaluate and interpret their performance? The financial crisis showed that these knowledge gaps are acute.

It is not surprising that the recent Stock Hansen survey of American economics PhD students found that 53% claimed that they needed more philosophy, more history and more critical thinking in order to succeed in their post-PhD jobs. Combined with the extraordinary financial backing from George Soros, these findings place the INET curriculum reform project in a unique position to affect real change right now.

Principles of reform

People who have taken macroeconomics in the last 30 years often had very little to say about the financial crisis. The economics taught in the classroom, it seems, does not give students the tools they need to read the *Financial Times*, for example. To mitigate this failure – i.e. to reform economics so that graduates can be active participants in relevant public debate – should be a central objective. This seemingly humble aspiration involves a number of ambitious reforms to the teaching of economics.

The brunt of these reforms should be borne by macroeconomics. While it is impossible entirely to separate macro from micro, the relevant contrast is between the eclecticism in microeconomics and the serial domination in macroeconomics by monolithic theories such as Keynesianism, monetarism or neoclassical economics. Aware of the fact that any reform programme risks substituting one orthodoxy for another, a core objective should be to introduce *disciplined eclecticism* – the principle that different models apply to different situations.

As a key element of disciplined eclecticism, the curriculum should induce economics students to evaluate the applicability of the diverse set of tools in their toolkit. In order for students to understand the reporting of the financial crisis and to comment sensibly on policy proposals, a macroeconomics curriculum would have to include a heterodox set of theories as well as specifying the types of problems they were intended to explain. These theories should be taught sympathetically but critically – either in their historical context or with contemporary examples.

Understanding debates in macroeconomics requires a thorough understanding of their quantitative component. In the shadow of rapid developments in mathematics and econometrics, knowledge of statistics has been largely ignored in the economics curriculum. As a result, students learn little about the collection and interpretation of

data to the extent that few can answer questions such as “what is the difference between GDP and GNP?” and “how do you construct an index number?”. By neglecting statistics in favour of econometrics we have a situation in which students employ sophisticated methods that they do not understand. The inability to read national accounts severely impedes their ability to employ economics as a useful heuristic.

Further, students need to be made aware of institutional power structures and politics. While most current economics degrees provide a skeleton of understanding of how *economics* works, their silence with regard to the politics of economic policy-making leaves students without an understanding of how *economies* work. This gap is particularly crippling in the context of developing economies, but – as recent experiences in Greece, Portugal and Ireland show – the role of populism, political power structures, the media and other ‘pure’ political forces matter for economic policy-making in the developed world too. Understanding the politics of policy is increasingly important as poor economic policy driven by non-economic forces in domestic economies may have systemic impact.

The development of confident and cogent spoken and written expression must also play a key role. Only a fraction of economics graduates spend their lives publishing quantitative papers, yet all will need to be able to formulate and articulate arguments. Only minimal effort goes into ensuring that graduates can express economic ideas clearly to a wider audience.

In summary, the joint ECC proposes a pragmatic “toolkit” approach to economics which emphasises practical reasoning. Such a toolkit would necessarily draw on a number of different sets of literatures both from within economics and other disciplines. The kit would include both quantitative and qualitative tools.

Naturally, economics is both broader and deeper than simply a framework for solving problems. It is a principal discipline for understanding human behaviour and the nature of the society we live in. Nonetheless, its responsibility to provide an applicable heuristic must not be ignored.

The Task Force paper *Economics for the Real World* translates these abstract principles of reform into a concrete agenda.