Macroeconomic civil war has only intensified since last financial crisis

By Louis-Philippe Rochon
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Something close to a civil war – or rather an uncivil war – has been brewing among macroeconomists since the early 1980s, and it has gone full blown since the outbreak of the 2007-08 financial crisis. It pits those who defend and promote the virtues of free-market economics and the increased technical sophistication of the discipline (who dominated the profession in the past 30 years) against those who question the reliance on these technical models, and de facto the supremacy of mainstream economic thinking. In fact, some are openly saying that the development of macroeconomics in the past three decades has become a colossal waste of time.

And now, in full view of the general public, the Economist magazine weighed in after a rather brutal attack on the profession by World Bank chief economist Paul Romer, who writes: “For more than three decades, macroeconomics has gone backwards.”

It is not the first time such comments have been made. Back in 2009, Willem Buiter, a former member of the Monetary Policy Committee of the Bank of England, argued that economists with “serious technical training” suffer from “a severe handicap,” and that the typical macroeconomics class taught in North American universities in the past three decades has been “set back by decades serious investigations of aggregate economic behaviour and economic policy-relevant understanding,” echoing Joseph Stiglitz’s belief that economics as taught “in America’s graduate schools … bears testimony to a triumph of ideology over science.” That same year, Paul Krugman was even more blunt: The development of macroeconomics since the early 1980s was “spectacularly useless at best, and positively harmful at worst.”

The verdict is clear: Those obsessed with developing increasingly technical models were also unable to predict the 2007-08 crisis, which was largely caused by policies inspired by their models. They have also been unable to propose any meaningful policies since. In other words, the past 30 years in macroeconomics have been an epic failure. As Mr. Stiglitz so clearly stated, “the models/theories that guided policy were not just innocent bystanders in the crisis that unfolded beginning in 2008.”

Recently, two French economists, Pierre Cahuc and André Zylberberg, shot back by publishing a pamphlet defending the virtues of free-market ideology. Le négationnisme économique et comment s’en débarrasser (Economic negationism and how to get rid of it) exploded in the media, and went as far as calling for the ostracization of those who criticize mainstream economics.

The authors applaud the elevation of economics to the level of pure science. For them, the mathematical rigour of the profession leads inevitably to indisputable economic truths. Those who oppose this are “false” economists and “negationists,” not unlike those who deny the Holocaust or climate change.

This view, of course, is not new. For instance, Margaret Thatcher once famously quipped that “there is no alternative” to the dominant market-friendly policies her government adopted in the early 1980s, thinking somehow that this justified her government’s draconian economic measures.

Yet the evidence in the past 30 years is squarely against this approach: Indeed, the increased sophistication of the profession came at a very high cost. We have produced new generations of highly technical students with no knowledge of how economies actually work. Back in 1991, in a joint statement of the Report of the Commission on Graduate Education in Economics, such luminaries as Olivier Blanchard, Lawrence Summers, Kenneth Arrow, Alan Blinder and Mr. Stiglitz were saying that "graduate programs [in economics] may be turning out a generation with too many idiot savants, skilled in technique but innocent of real economic issues."

Not surprisingly, enlightened students are demanding changes. For instance, in 2000, students in France's Les Grandes Écoles expressed their dissatisfaction with the teaching of economics in their universities. In November, 2011, students at Harvard University walked out of Greg Mankiw's class, citing "a conservative bias." More recently, in 2013, a number of undergraduate students at the University of Manchester demanded that the "content of the economics syllabus and teaching methods could and should be seriously rethought."

Macroeconomics is broken and we need to rethink how to rebuild it such that it will produce sound economic policies that will lower unemployment, reduce income inequality, create better-paying jobs and a greener economy and deliver growth, something that has been lacking in the past three decades. Such an effort cannot come from increased reliance on models that are so disconnected from the real world as to render them useless. We need to encourage a more pluralistic approach that better reflects the dynamic and chaotic nature of the real world.

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