# Why Economics must get broader before it gets better

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Even as the public's skepticism toward their profession has grown, economists have continued to ignore increasingly obvious flaws in their analytical frameworks. A discipline long dominated by "high priests" must now adopt a more open mindset, or risk becoming irrelevant.

The economics profession took a beating after most of its leading practitioners failed to predict the 2008 global financial crisis, and it has been struggling to recover ever since. Not only were the years following the crash marked by unusually low, unequal growth; now we are witnessing a growing list of economic and financial phenomena that economists cannot readily explain.

Like Queen Elizabeth II, who famously asked in November 2008 why nobody had seen the crisis coming, many citizens have grown increasingly skeptical of economists' ability to explain and predict economic developments, let alone offer sound guidance to policymakers. Some surveys rank economists among the least trusted professionals (after politicians, of course, whose trust economists have also lost). A solid economic training is no longer regarded as a must-have for candidates for top positions in finance ministries and central banks. This marginalization has further weakened economists' ability to inform and influence decision-making on issues that relate directly to their expertise (or what they would call their comparative and absolute advantage).

The profession owes its deteriorating reputation largely to excessive reliance on its own self-imposed orthodoxies. With more openness to interdisciplinary approaches and the broader use of existing analytical tools, particularly those offered by behavioral science and game theory, mainstream economics could start to overcome its shortcomings.

Three recent developments underscore the urgency of this challenge. In the 12 months between the World Economic Forum's 2018 and 2019 annual gatherings in Davos, those in attendance went from celebrating a synchronized global growth pickup to worrying about a synchronized global slowdown. Notwithstanding the deterioration in European growth prospects, neither the extent nor the speed of the change in consensus seems warranted by economic and financial developments, which suggests that economists may have misdiagnosed the initial conditions.

A second area of concern is monetary policy. Professional economists still have not spoken up clearly enough about the challenges facing the US Federal Reserve's communication strategy, despite the fact that even slight misfires, such as occurred in the fourth quarter of last year, can trigger severe bouts of financial instability that threaten growth. Instead, they have simply continued to embrace the contemporary view that greater Fed transparency is always a good thing.

We have come a long way since the era of former Fed Chair Alan Greenspan's "Fedspeak" (or, as he put it, "mumbling with great incoherence"). But that raises a new problem: illusionary precision. The Fed now follows every policy meeting with a release of statements, minutes, transcripts, blue-dot plots, and a press conference, signaling to markets a level of sophistication that is scarcely realistic in a world of fluidity and heightened uncertainty.

Rather than simply going along with the view that more is better, economists should be urging the Fed to adopt an approach more like that of the Bank of England, which emphasizes scenario analyses and fan charts. Economists could also be doing more to inform – and perhaps even influence – the Fed's ongoing review of its policy frameworks and communications strategy. After all, the

economics literature on asymmetrical information suggests that greater input from economists outside of the Fed is both appropriate and necessary for ensuring an optimal policy outcome.

A third area of concern is the Sino-American trade conflict, which is more controversial, owing to its political nature. So far, the vast majority of economists have trotted out the conventional argument that tariffs (real or threatened) are always bad for everyone. In doing so, they have ignored work from their own profession showing how the promised benefits of trade, while substantial, can be undermined by market and institutional imperfections. Those who wanted to make a productive contribution to the debate should have taken a more nuanced approach, applying tools from game theory to distinguish between the "what" and the "how" of trade warfare.

These are just three recent examples of how economists have dropped the ball. In addition, economists are struggling to explain recent productivity developments, the implications of rising inequality, the impact of persistently negative interest rates in the eurozone, the longer-term effects of other unconventional monetary policy measures (amplified by the European Central Bank's latest policy pivot), and the sudden slowdown in European growth. They also failed to foresee the Brexit saga and the political explosion of anger and alienation across the West in general.

None of this is a huge surprise, given the profession's embrace of simplistic theoretical assumptions and excessive reliance on mathematical techniques that prize elegance over real-world applicability. Mainstream economics has placed far too much analytical emphasis on the equilibrium condition, while largely ignoring the importance of transitions and tipping points, not to mention multiple-equilibria scenarios. And the profession has routinely failed to account adequately for financial links, behavioral-science insights, and rapidly evolving secular and structural forces such as technological innovation, climate change, and the rise of China.

All of this should tell economists that there is plenty of room for improvement, and that they need to expand the scope of their analysis to take into account human interactions, distributional effects, financial-economic feedback mechanisms, and technological change. But this cannot just be about devising new analytical models within the field; economists also must incorporate insights from other disciplines that the profession has overlooked.

A discipline long dominated by "high priests" must now adopt a more open mindset. That means acknowledging and addressing unconscious biases, not least by making a concerted effort to improve inclusion and diversity within the field. It also means focusing more on inter-disciplinary approaches and distributional effects, and less on the purity of mathematical models, average conditions, and just the belly of distributions. Such structural changes will require more and better intellectual and institutional "safe zones," so that analytical disruptions can be managed and channeled in productive directions.

Without significant adjustments, mainstream economics will remain two steps behind changing realities on the ground, and economists will be risking a further loss of credibility and influence. In an era of concern about climate change, political upheavals, and technological disruption, the shortcomings of mainstream economics must be addressed posthaste.

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