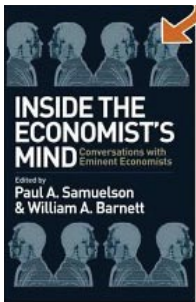


Anand Chandavarkar

Economists on the Couch

Eminent economists joust their peers across time, in the arena of a brilliant book, allowing a glimpse of their intellect, even making unlikely admissions. Anand Chandavarkar finds this confessional a racy read.



Inside the Economist's Mind: Conversations with Eminent Economists

Edited by Paul Samuelson and
William A. Barnett;

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Conversation is an “unrehearsed intellectual adventure whose significance lies neither in winning nor in losing, but in wagering” (Michael Oakeshott), and the book under review is a mint specimen of this genre. It provides a rare overview of modern economics and its connection with the life experiences of famous economists whose work is seminal to the subject.

Economists are best classified into ‘poets’ and ‘plumbers’ to borrow the *The Economist* magazine’s expressive dichotomy. The former articulate paradigmatic visions of the field and the latter are the engineers who diligently build the infrastructure needed to implement those visions. Using this dichotomy, the subjects of this volume naturally divide into the poets like the Nobel laureates (Aumann, Milton Friedman, Wassily Leontiff, Robert Lucas, Franco Modigliani, Paul Samuelson, and James Tobin) as opposed to the plumbers, or the policy wonks (Paul Volcker, Stanley Fischer, Martin Feldstein, and others), with the intermediate category of the rare economists like Robert Shiller, who are poets, plumbers as well as entrepreneurs.

It is appropriate to begin with Samuelson, the ‘incarnation of the economics establishment’ who has been both lauded and vilified for virtually everything right and wrong about it. Even the bare metrics of his contributions are staggering. He has published over 550 peer-reviewed papers which average almost one paper a year over 50 years and over a couple of thousand journalistic articles at monthly intervals! His signature method of economic theory follows two rules which also characterize much of neo-classical economics since then: reduce the number of variables and keep only a minimum set of simple economic relations, a restatement of the principle of Occam’s razor; if possible, rewrite it as a constrained optimisation problem. Samuelson’s economic problems dictated where his mathematical preoccupations should go and not vice versa. His notion of “a fruitful economic science is to explain and understand the course of actual economic history.” But Samuelson also pronounces a magisterial indictment of economists who

“do primarily work for our peers esteem, which figures in our own self-esteem,” i.e., economists are more interested in peer approval than problem solving.

Milton Friedman, the guru of monetarism, thinks that his research on the consumption function is his best purely scientific contribution; that there is too much emphasis on mathematics as such, and not on mathematics as a tool in understanding economic relationships; that economists pay all too little attention to the quality of data as opposed to the sophistication of the methods they use; that one ought to try to design policies for the long run; that he still has more extreme views about the unimportance of fiscal policy for the aggregate economy than the profession does.

The Yale tradition in economics, which is well represented by James Tobin and Robert Shiller, is particularly illuminating on the methodology of realistic economics. Tobin deplores the growing schism between academic economics and the kinds of economics that are useful in policymaking and pleads for “a little more acceptance of different ways of looking at things in the macro area.” Shiller believes that economics tries to understand the interplay between institutions and theory and wishes that “a higher fraction of the economics profession were interested in history, psychology, institutions, and economic policy.” This is capped with a timely warning against the ‘physics envy’ malady of economists. “The physics methodology does not work as well in economics” and “we are not going to discover universal laws like $F=MA$ of the same importance in economics.”

Franco Modigliani considers himself a Keynesian in the very fundamental sense that the system does not automatically tend to full employment without appropriate policies, but also subscribes to monetarism insofar as it means that money matters, but with the caveat that real money, is the most important variable. Interestingly, he supports the Euro largely for its political implications - ‘peace in Europe’ - over the purely economic ones.

If Modigliani is wholly on the side of the Keynesian angels, Wassily Leontif, is emphatically contra-Keynesian. To him “Keynes



was more of a politician than an analyst, who developed his theory to justify his political advice." Economic fluctuations are essentially a dynamic process best described as some kind of difference, differential equations embodying quantitative relationships like the input-output system. "Practical advice should be more based on understanding how the system works" for which disaggregation is very important. Economists are not sufficiently interested now in institutional changes brought about by the development of new technologies. The Darwinian approach to economics is more fruitful than physics. As regards the future of economics, problems of income distribution will increase in economics. "I see economics as a social science", and "economists have to cooperate with anthropologists and others." This from a quintessential mathematical economist is particularly noteworthy. Equally, Leontiff is pretty dismal about the prospects of the dismal science, "They will soon run out of candidates for the Nobel prizes in economics."

Robert Lucas is happy about the successes of general equilibrium theory but sad about the de-emphasis on money that those successes have brought about. Although the overwhelming bulk of all successful applied economics is still based on the idea of competitive equilibrium theory, game theory has given a language for talking about resource allocation with private information. Lucas does not regret his 'pareto-dominant' decision to not have taken up a policymaking position or writing popular columns on economics. He likes the "sense of discovery and intellectual progress" that he can get from doing technical economics. He remains the purest of pure economists.

In contrast, Robert Aumann, a pure mathematician and pure economist was awarded the Nobel prize for developing game theory and establishing its key role in modern economics as well as applying his research insights to real life phenomena and issues. A repeated game is often more realistic than a one-shot game as it models ongoing relationships. An interesting finding of Aumann

is a political game paradox: a minimal winning government coalition will be unstable if it is too small; if too large, the prime minister will have too little influence. What is the right balance? Any moral for contemporary India?

An outlier in the present volume is the Hungarian economist, Janos Kornai, who has given the most informed and deepest critique of the socialist system to date, using Hungary as a prototype of an economically dysfunctional and politically odious regime. The dysfunctional properties of socialism are



What's on the economist's mind?

systemic and therefore cosmetic reforms do not help. Yet he never became a prisoner of any doctrine and proudly calls himself an eclectic economist who always protested if anyone tried to put him in a certain box. His work on Anti-Equilibrium, Over-Centralisation and Economics of Shortage are out of the box contributions, which also recognize that the tools of economics "include a deeper acquaintance with political science, sociology, psychology, history, etc." He is rightly critical of World Bank and IMF experts, supposedly non-political, who are supposed to tackle issues that are political by definition. "Every advice they give implies disguised or undisguised value judgments."

Turning to the 'plumbers' in the volume, Paul Volcker, one-time chairman of the Federal Reserve, makes the striking observation that "markets don't manage themselves", and also that bankers don't manage themselves given their greed, fear, and hubris combination. The most important lesson that he learnt was that there are no normal distribution curves when it comes to financial crises; they tend to run to extremes. Also, his staff always seemed very reluctant to go beyond bare analysis of the alternatives. Their basic answer to the question, "What do you think we ought to do?" was, "That's your job." The top is truly a lonely eminence.

Stanley Fischer (Governor, Bank of Israel and one-time First Deputy Managing Director of the IMF) was led to economics by the example of Dag Hammerskjold, an accomplished economist and an idealistic international civil servant. He confesses that a possible weakness of an academic is that "You don't understand. You have to make decisions even when you don't know everything." At the IMF he learnt to make a decision at the end of a meeting. Oddly, for an academic, Fischer has a pecking order of peer-review periodicals. "I pick up the QJE frequently, the AER likewise, *even the JPE*," (emphasis provided). Rank orders may be appropriate for tennis players but simply do not belong in the realm of scholarly filters. However, his research priorities - the centrality of human capital creation and the creation of institutions supportive of economic activity and growth - are well merited. His advice to researchers: "It is critical to get yourself the right set of tools when you are young" is indeed well taken.

To conclude, Christopher Sims argues that econometricians have failed to confront the problems of inference that are central to macroeconomic policy modeling, a withering indictment of the state of the art in the most abstruse branch of the discipline.

No review can do adequate justice to the embarrassment of riches in the present volume, which offers a gourmet pot-luck repast to the enterprising reader and one more reminder that economics will always remain a discipline of cognitive dissonance!

Anand Chandavarkar is an economist. He was formerly with the IMF and his major interest is economic history.

