

Why Economists Were Irrelevant Back Then and Why They Once Again Can Be?

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Jared Diamond, in his book “Guns, Germs, and Steel” explains how societal stability came into existence. Farming and domesticating animals provided social stability that was lacking in hunter-gatherer societies. Farming allowed for the production of storable food, and therefore unlike hunter-gatherer societies, people did not need to work everyday for their food. Farming made the quest for survival of society somewhat easier. Over a period of time, the adoption of improved farming techniques increased the productivity of agriculture. Examples of improved farming techniques can be thought of in terms of the use of a better breed of animals in cultivation and the use of heavy plough as indicated by Anderson et al (2016). This improvement in farm productivity resulted in more spare food being available for society, and hence allowed a portion of society to pursue non-agricultural activities e.g. craftsmanship, art, trade. This process of an increase in farm productivity continued, which essentially meant that a fewer number of people could now produce food for a larger number of other people who were pursuing non-farm activities. This therefore allowed for the movement of labor into non-agricultural activities centered around towns.

Over time, unions resembling trade unions, such as Guilds, came into existence to ensure the smooth operation of non-farm activities. This cooperation of people allowed them to fight together against threats to their survival. Therefore, this helped keep society from a breakdown, or in other words helped bring order to society. The Master of the Guilds was there to take a decision for all economic agents in the guild regarding the quantity, price and market. Robert Heilbroner called this type of a system as a ‘tradition’ which was passed on to generations and ensured order in society.

There was another type of system that came into existence and made society fall in order. This system was authoritative in nature, and was popularly called as a ‘command’ or ‘control’ system. In a command system, there happened to be an authoritative ruler, dictator or a group of elite people who were authorized to decide the type and amount of goods that would be produced by an economic agent under their command-region. In these systems of social order, which were heavily under the religious influence of the Church, working for profit or one’s personal gain was considered as a sin. It was not appropriate for one to be profit oriented. The decisions regarding what to produce, how much to produce and where to sell were all taken by the elites, and therefore little was left for somebody to talk about economics. Hence, economic analysis and policy suggestions were useless, or economists were irrelevant, back then.

Post 1600, the rise of technological advancement and scientific curiosity, the emergence of national units in Europe, the decay of religious influence, and an increase in exploratory voyages to different parts of the world, all together moved with an increase in trade. This increase in trade called for a greater demand for goods,

and the greater demand for goods caused more technological advancement. Whether trade caused technical advancement or technical advancement made trade possible is not the main idea here - what matters is that both increased. On the other hand, the Protestants' social movement, led by Calvin, resulted in the acceptance of working for one's gain as a normal thing to do. Protestants viewed prosperity as the grace of God, and poverty as something that God did not want to prevail in the society. This new social view allowed people to pursue economic activities for their personal gain. The greater demand for goods due to a larger volume of trade supported the setting up of new private enterprises working purely for profit. This acceptance of profit as a correct or proper thing to do, put together with the aforementioned factors resulted in the emergence of a third system of social order.

This system is known as the market system or the market mechanism. In this system of social order, society is safe from breakdown because everyone is working for their gain and unknowingly creating opportunities for others to pursue their gains or increase their wealth. In this system of social order, the decision of production is left to individuals. It was then that the laws or theories of optimal utilization of economic resources started making sense: first, because it was appropriate for one to make profits, and, second, because one could now take decisions for one's production problem. Around 1776, Adam Smith, the founder of modern economics, published his masterpiece "Wealth of Nations" and with that the journey of economists is believed to have started.

In the last two and a half centuries, many eminent economists have contributed, and through their contributions, guided the world to prosperity. Technical advancement has accompanied this prosperity. The need for a better understanding of economics has also increased with prosperity. While many countries have made spectacular progress on the path to development, some of them have not. On the other hand, we have seen financial crisis from time to time, the most recent one being in 2008.

Eminent thinkers and Nobel Laureates have cautioned the economic community of contemporary understandings of the economy. Fredrich Hayek called for not formalizing everything into scientific knowledge. In his seminal paper "The Use of Knowledge in Society", he said that by virtue of its design, a large amount of society's knowledge cannot be put into formal mathematical models. The "man on the spot" knows best about the time and place - the central planner should respect that, and hence find ways to use that knowledge of society.

Paul Krugman, after the 2008 financial crisis, in his article "Mistaking Beauty for Truth", criticized economists for their love of the elegance of mathematical models which they forcefully applied to economic conditions. The mathematical beauty or elegance of economic models was appreciated in elite circles rather than the practicality of the same. This excessive formalization and what Krugman calls as "getting seduced for mathematical elegance" did more harm to economic models than good, which otherwise could have been closer to reality. In public spaces, many voices called for economics to re-invent itself or the need for a scientific revolution in economics. Take, for example, Jean-Philippe Bouchaud's article in *Nature*.

Macroeconomic models these days consider the New Keynesian model of representative agents with price stickiness and monopolistic competition, which is a

significant improvement over previous models. Many respected economists are trying their best to understand how exactly it is that economics works. However, the role of money is taken as a facilitator of transactions in almost all models. Money is neutral in the long run is what we know from contemporary macroeconomic models. But money can have a quantum interpretation. To understand this, consider quantum physics - the magnitude of attributes such as position or momentum are fundamentally indeterminate until measured, and according to the uncertainty principle cannot be known beyond a certain precision. Similarly, money's use in transactions is a way of attaching a number (the price) to the fuzzy and indeterminate notion of value, and therefore acts as a quantum measurement process. When you sell your car, you don't know exactly how much it is worth or what it will fetch; the price is revealed only at the time of transaction.

Therefore, in sum, I believe that economists should not put knowledge, that by nature cannot be explained by formal models with certainty, into their mathematical models. Doing so in fundamental models may accumulate into lots of errors that might ultimately result in a crisis. If the realities of the world are not allowed for, making claims with exaggerated certainty may bring down the credibility of the profession, or in some sense its relevance. To remain relevant in the contemporary world, something needs to be changed fundamentally to make room for uncertainties and a better understanding of subjects such as money.

References

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