NOTES AND TOPICS

The Seven Ages of Economics

Bob Rutherford

The profession of Economics is undoubtedly ancient. Indeed I had some hopes of being able to assert that it was the oldest profession. I had based this finding on the recent discovery of the oldest known piece of writing in the world from ancient Babylon. This is not, as might be supposed, an epic tale of heroes and gods, erotic poetry or even an instructive tale of high moral precept. It is rather, a careful dissertation of the principal-agent problem and the associated optimal accounting and incentive system. It was clearly intended as a major contribution to the then pressing problem of tax reform and the relevant hieroglyphics, among the pictorially most striking in ancient record, made clear the intent to embrace service industries — perhaps the clearest evidence that there is an older profession.

The case depicted on the massive stone tablets argued that, pending effective methods of taxing income and wealth, broadening of the indirect tax base was essential. Interestingly, we can infer from the clearly vastly expensive monumental nature of the inscription, with its fine carvings etc., that the presentation of the argument was publicly funded.

I must add in Shelley's words:

Nothing beside remains. Round the decay
Of that colossal wreck, boundless and bare
The lone and level sands stretch far away.
Ozymandias

Some historians are therefore of the view that, despite this expensive advocacy no such broadening of the tax base occurred, and that as a consequence the black hole of history engulfed Babylon, which disappeared off the league ladder of successful nations. If so, since dire consequences were clearly predicted by our

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ancient colleague, then by any reasonable normative standard this was a considerably positive achievement. I, for one, completely discount the scurrilous alternative of environmental catastrophe by overcutting of forests.

But, I digress. I referred to the 'profession'. And the profession, any profession, needs agreed rules, standards and even Arrowian ethics to close the credibility gap to the customers and to keep out the snake oil merchants. A profession is a firm in the Coasian sense of being an island of consciousness floating in a sea of unconscious co-operation. One member of the oldest profession has commented that at times she would have preferred being unconscious, and many of you, no doubt, in tendering unwelcome economic advice, will have experienced a similar sentiment. I must confess to only patchy success in explaining this famous Coasian theory to representatives of the oldest profession. Those of you old enough to remember the well-known movie *Last Tango in Paris* will immediately grasp the problem. When hearing Coase's analogy of lumps of butter floating in milk, they tended to view this as a proposition pertinent to the rent possibilities inherent in a segmented market with respect to risk premia and quote accordingly. This is clearly an example of what Fritz Machlup called 'misplaced concreteness' and empirically remains one of Clapham's empty boxes waiting to be filled.

Unfortunately for Economists as professionals, closing the credibility gap requires conscious effort, as it has for professions as diverse as medical practice and selling used cars. It is instructive to look at how physicians solved the problem and how they left economists behind for such a long time. Let us recall the time, prior to the discovery of disease causing microbes, when the conceptual framework of medicine was one of humours and miasmas. If a patient got well, it was likely to be despite the attentions of the earnest physician bleeding and purging. Indeed, economics owes a lot to this state of affairs. Francois Quesnay, whom, as Schumpeter reminds us, all economists regard as one of the greatest figures of their science, was originally a physician with important scientific claims to the discovery of the circulation of the blood. Under his care, the Dauphin recovered from smallpox. Quesnay's perspicacity is illustrated by his using the financial consequences of his good fortune to change professions and transmute the circulation of the blood into that remarkable eighteenth century forerunner of ORANI, the *Tableau Economique* of the Physiocrats.

However, while the practices of 'leechcraft' and 'sawbones' lacked status, the medical profession had within its armoury, a tool that could give it true professional prestige despite its lack of results — a problem which many would say still confronts economists — and consequently from which there is much to learn. I refer to Latin. All professions need a high level language expressive of their expertise and which remains largely incomprehensible to the laity, except for *obiter dicta*. This is true of all the professions that have attempted to claim true knowledge, or to be grounded in science. Lakatos, for instance, with

reference to mathematics and physics, writes of the fostering of a guild language. A guild language gives status, it speaks of secret knowledge and power not available to ordinary mortals, it speaks with mystical authority, demanding trust — so the priest, so the physician, to paraphrase Arrow. We may add so the economist, for the one thing we do agree on is to talk like economists.

The great trick economists learned was to translate their ideas into mathematics and then translate back into ordinary language. Of course, there is a respectable public interest argument for this. Marshall argued that by employing terms in common use reasonings could be expressed in language intelligible to the general public. There was from the first a tension with the need of the guild to make terms and language a test of entry to the apprentice economist. Consider simple terms, words in ordinary use like savings and investment, and the fun to be had with non-economists and even the partly trained. Indeed the guild has even had to use such definitional weapons against those clinging to unfashionable doctrine. Consider the evolution of descriptions of unemployment. Early Keynesians could hardly do with admitting there was anything before the Master, so all pre-existing views were dismissed as 'frictional' by the simple expedient of adopting such a wide definition of frictional unemployment as to render the indictment tautological. As the first flush of faith in motive and action faded, the guild prudently replaced 'voluntary' and 'involuntary', and their unfortunate connotations, with 'demand deficient unemployment'. Here I would like to mention a hitherto unrecognised contribution by a Tasmanian politician who was briefed on this concept by his adviser. The adviser was a New Zealander and this may account for the speech referring to 'demand *efficient* unemployment', a concept with some considerable attractions in capturing the essence of the short end of our crossed demand and supply sticks. However, I digress. The guild has continued this process of definitional change through the 'natural rate' with its appeal right back to Adam Smith on to the ultimate present safety of the utterly theory dependent concept of NAIRU. This not only sounds like a holiday destination for the frictionally unemployed but has the added mystique of the acronym, though I understand some hold the belief it is the name of someone's spouse.

We are then masters in Humpty Dumpty's sense — a word means what I say it means, nothing more nothing less — of the shifting grounds of subtle distinction. No one was more aware of this than one of the greatest economists and a master of the language whose contribution has not hitherto been acknowledged, at least in economics.

Shakespeare Was An Economist

It is not generally realised that Shakespeare's first profession was that of an economist. Keynes, as usual, got both close to the truth and as far away as

possible when he claimed Shakespeare could only have flourished in an Age of Inflation. He meant in his second profession. For Bill as an economist had been a sound money man, advocate of tariff reduction and microeconomic reform. The ascension of a red haired Queen committed to 'easy taxes', protection, a rural poor law and state marketing boards, forced him underground. The plays are in fact thinly disguised economic diatribes. For instance, the *Merchant of Venice* is a satire on re-regulation of the banking system and the well-known pound of flesh analysis anticipates Stiglitz on interest as an imperfect risk discriminator.

Measure for Measure is a polemic in favour of acknowledgment of the government budget constraint and a shift to accrual accounting. I won't bore you with the human capital analysis of *Romeo and Juliet* or the relevance of the role of Friar Laurence to the principal-agent problem under asymmetric information. Rather I want to explain the relevance of the well known 'Seven Ages of Man' from *As You Like It* as a metaphor for the trials of our profession.

Consider the First Age of Economics — of the infant aspiring professional economist, as Bill says, the infant muling and puking. To wean this infant into the discipline requires teachers with the capacity for two grand illusions — the first that economics can answer all questions and the second that knowledge of its mysteries and the financial benefits ahead are easily acquired.

Success leads to the Second Age — the whining schoolboy... creeping like a snail unwilling to school. Gulled in the first age, into sunk investment costs, that bait and trap barrier to exit, they rote learn their Latin, sorry, mathematics — *natura non facit saltum* — all their learning is derivative. The acme of achievement is to memorise three proofs of the Gauss Markov theorem.

The dry drills of market grammar sort out the faint of heart. Only those who become captivated survive to the third age — that of the lover. The rest escape to become accountants or bankers or to respectable practicality by any other name.

What of the few who continue to the Third Age, what of the Lover? This is the age where the economist is captivated by the beautiful syllogisms of systems of equations, when they feel, as Harrod did, warranted in stepping back from the board and saying 'let us pause to admire the beauty of my result', though they may lack his endearing pomposity. It is the age of a secret pleasure, that of solving problems posed as endgames in chess. Some never escape its net and become cloistered refugees from the market, living in the academy. For the lover is always, in this profession, unrequited and bemoans and sighs his state as fast as mill wheels strike, as Bill might have put it. Anyone who has visited a university department recently will attest to this truth.

But the ardour of some, grown in confidence turns to martial evangelism. For the Fourth Age is that of the soldier seeking the bubble reputation. This is the age of the economic adviser or the econocrat. They must safeguard economic reform, the free market and free trade from the mercantilist barbarians

at the gate, and worse from sociologists. Now all is first best inquisition and catechism and doubters put to the stake. The soldier economist knows his trade. He must deny his opponents all high ground and they must fight on a field of his choosing. Consider the impertinence of non-economists attacking 'economic rationalism'. The first defence is to pull the unwary into a web of tautology and syllogism. Thus utility is defined as that which is wanted to be maximised, then opponents are, by definition, arguing against maximising what is wanted. Many a critic can be safely left floundering in the marsh of confused means and ends. Followers and fellow travellers can usually be butchered by attacking the motive — for it must be self interest — only the martial guardians of the citadel can view the welfare of the whole. The chattering critics, and they must be chatterers for they have no models, are really about getting rent. Those who ask about competition can be crushed with the alchemy of contestability so that all is potentially competitive. There are enough sunk costs in the bubble reputation without letting them cloud the argument.

Of course I speak of the successful soldier, who must be in the successful army of the Orthodox church. Any attack on free trade or on the market requires that the opponent prove he is not a mercantilist. Adam Smith and David Ricardo are to be defended against this ancient heresy. Just as for a good Catholic the ceremony of the mass returns the believer to participate in Calvary again, so the economist soldier fights the Corn Laws over and over and over again. In war there is no room for niceties such as the ethical underpinnings of the compensation principle or mere technicalities such as Scitovsky reversal and worse the theory of the second best. This latter Trojan horse can provide the cover for any treachery.

What of internal heretics and deserters? Minor sects are an advantage provided they can be confined to academic irrelevancy. They keep the infantry trained in the theory dependence of facts while providing proof of tolerance. The key thing is to undermine or sap any pretensions to competence in policy advice.

The greatest of our economic generals have known you only give quarter in footnotes, lest you give comfort to the barbarians who would misuse qualification to take the fortress. Marshall set the modern professional tone in making 'economist' the term for the orthodox and shunting the historicist school aside by calling them economic historians. The great marginalist knew how to marginalise. Perhaps public choice theorist, political economist or economic geographer have similar utility today?

Having achieved the bubble reputation, the reward is the Fifth Age, that of the Justice of wise saws and modern instances, of pearls of wisdom and pithy examples. This is the culmination of professional reputation, the authority is there, the trust won and sometimes even earned. Distilled truth is to be presented and illustrated in all its compelling beauty. In this age of mass media this should be the true coinage. But there is a form of Gresham's Law at play.

Young upstart corporals in disparate imperial provinces such as merchant banks clip at the currency. They are even willing to speculate, on television, on the economy wide repercussions of movements in something called the 'Aussie', urging the breathless urgency of this then that with all the authority of a market actor.

Many a Justice sputters in his port over the reckless bravado, the disregard for the assumptions of canonical general equilibrium or even Mundell-Fleming and mutters darkly about the labour market. What to do? Most will join them recognising the futility of trying to control the fall in their currency. They succumb to the powerful temptation, as Solow says, to 'skip the complicated paragraph and replace it by one declarative sentence'. Perhaps stating that this or that growth rate is needed to achieve this or that level of unemployment. After all one's own simplification is better than that of a barbarian journalist. Some, unable to accept this, go on retreat in the academy with their beloved models, where they teach the virtues of the market and rail at how it doesn't value them.

This brings us to the Sixth Age, that of the lean and slippered pantaloone with spectacles on nose. For this is the age of professing that everything depends on everything else, all is tendency and qualification. The spectacles are, of course, bifocal, for one must see both sides. Economics might tell you about the world, or more accurately, a world or possible world, but emphatically not how to change it. In this age the theory dependence of fact is conventional. Terms and words mean what they are defined to mean, as Professor Dumpty made clear to Alice. But this Age should not be dismissed for it is the age that has given the world that crowning literary achievement, the economist joke. This should not be mocked. It may be our only conclusive evidence of recognition as a profession.

The final and Seventh Age is that of second childishness. Those in this age are found looking vaguely at a model and their tool and dimly wondering what they were for. Elements of the former ages crowd about in confusion: the love of arcane knowledge; the martial certainty; the pleasures of authority and lastly doubt. In some, long dead heresies arise. They may read old books, beloved in childhood, rediscover Keynes and even imperfect competition. They may even believe it is possible to talk to sociologists. The worst affected discover the History of Political Economy and come to believe it has something to say. They worry that the profession has Alzheimer's Disease, forgetting things it used to know, why this path was trodden not that, believing that by definition the fit ideas are those that survive. Some become terrifying old Turks assaulting young economist fogies, like Marshall lurking with his umbrella in a Cambridge quadrangle in his dotage. At best they are listened to politely with a degree of pity, at worst consigned as silly old buggers to the mere oblivion with which Shakespeare ends his final Age.

Now having taken the Bard's name in vain, this play ends with more of the same:

Epilogue

Now thy Principal's will be done
All agents bound in competition
A profession redundant save to explain
Without more pain, there is no gain.

*For the best are first and the first are best,
To the last constraint, to the final conquest.
And those awkward questions of who gets what
And is efficiency worth it and other such rot
Are for politicians and other such folk
With the bad taste to laugh at an economist joke.*

In each Age there is much to learn
And to self inspection I would have you turn.
For as our profession survives its stages
So we each relive the lessons of the ages.

*And lest this seem to end high brow
To that first profession I return now
We sing market, discipline, young and old
They respond that too can be bought and sold.*

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