

The Education of Economists

David Colander ***The Lost Art of Economics***, Edward Elgar, Cheltenham, 2001.

Reviewed by Colin Rogers

David Colander is well known for his 1991 book titled *Why Aren't Economists as Important as Garbagemen?* which presented his views on where graduate training in economics in top US graduate Schools was going wrong. In the book under review Colander refines that theme by examining how academic economists came to render themselves less socially relevant. He (pp. 5-6) is concerned that:

In playing the academic game, economists often lost sight of the simple fact that economics was primarily about policy, not logical games. ... To me, the correct social goal is for economists to provide as much insight into policy issues, and to understanding the economy, as possible.

His thesis is summarised in the title of the book. Put simply, Colander argues that academic economists have lost the art of economics. Instead they have been seduced by the model of standard science to concentrate on model construction to the almost total exclusion of knowledge of real-world institutions. Consequently, much of what academic economists do makes only a token gesture to policy application. In Colander's view this is far from adequate as applied policy analysis always requires intricate knowledge of real world institutions. Furthermore, once such institutional knowledge is taken on board it readily becomes apparent that much of what passes for sophisticated theoretical and empirical work either misses the point or involves spurious precision.

To make his case Colander has arranged twelve of his previously published papers into six sections and added an introduction placing the papers in context. Parts I through IV present his vision of the art of economics while parts V and VI ponder the implications of the lost art of economics for the profession and its future. Conveniently, the chapters are generally self-contained and can be read selectively. I will dip into a few to convey the flavour of Colander's position before I offer an assessment of his thesis. As this journal is concerned with policy I will concentrate on those aspects of the work of direct interest to policy makers. In addition I will outline Colander's views on the education of economists.

To begin, we had better set out what Colander means by the art of economics. Colander follows John Neville Keynes (1891), and applies a tripartite division to the methodology of economics. By contrast with the familiar positive-normative distinction he introduces a third category called applied economics. The methodology used in applied economics is said to be different from that which applies to both positive and normative economics because it requires knowledge of institutional, operational and social factors. Some of the latter may be non-

quantifiable and acquired only by experience. The methodology of applied economics Colander labels the art of economics and for guidance in the application of that art he sets out six methodological rules in Chapter 3. But rather than examine those rules in detail it is more informative to consider his discussion of the art of monetary policy which originated with an earlier book (Colander and Daane, 1994).

Colander (p. 62) opens his discussion of the art of monetary policy with the bald statement that; ‘Policy works because it has artists pulling the strings’. He goes on to explain that to practice the art of economics it is necessary to understand both the highest levels of theory and the most minute operational detail. ‘The need for both policy makers and academic economists who write about policy to have this dual understanding is the central theme of this book.’ Colander makes a strong case that currently many academic monetary economists fail this test. In particular they lack the institutional and operational knowledge to generate relevant theoretical models. The implication for the education of economists is that many are being taught that these models are more important than operational detail.

To drive home the point Colander examines the academic debate over rules vs discretion in monetary policy and argues that the ‘proof’ of the superiority of rules over discretion does not stand up. He (p. 65) concludes that:

The art of monetary policy is in finding the appropriate rule of limited contingency and in distinguishing those situations in which a rule can usefully be broken because the situation is a sufficiently unique historical event, or one with such long-run consequences that there will be no long run unless the rule is broken —from those situations that can be dealt with by rules.

For Colander, when it comes to monetary policy, there is no escaping the need for situation-dependent judgment. On this point Colander is probably preaching to the converted as his is a view held by many central bankers and influential monetary theorists such as Goodhart (1988) and Blinder (1998).

On the matter of the training of economists Colander is particularly critical of the emphasis on modelling (mathematical skills) to the exclusion of institutional detail. From his perspective, (p. 66) the major flaw in the current training of economists is their lack of exposure to institutional detail (there are no incentives and numerous disincentives to seek such exposure. In this respect Colander’s anecdotes about Paul Volker’s experience with academics are particularly telling). Nevertheless, when economists move into the real world of government or the private sector it is possible for them to become socially useful. In Colander’s view it takes two months for a smart graduate to realise that most of what was learnt at graduate school is irrelevant and another two years to pick up the necessary institutional detail. Overall this dichotomy in their education is inefficient and in any event leaves academic economists with little exposure to institutional detail.

Colander's proposed solution is to introduce students to the art of economics at graduate school.

Most American academic economists apparently agreed with Colander's assessment of the situation in the profession in the late 1980s and a Commission on Graduate Education in Economics (COGEE) was established and published its report in the *American Economic Review* in 1991. The recommendations made by the commission are evaluated by Colander in Chapter 10 titled: *The Sounds of Silence: The Profession's Response to the COGEE Report*. As the chapter's title suggests the response of the academic community to the report has been unfavourable from Colander's perspective. In the top US graduate Schools there has been no change. Colander is concerned because technical applied work is so difficult — you need to be a good generalist and a good formalist to do it — but the selection process is biased in favour of formalists and against generalists. Consequently, he is of the opinion that the 'common sense anchor' provided by the generalists is being lost to the profession.

The remaining chapters in the book apply Colander's perspective on the art of economics to a wide range of topics. Interesting examples include advice about the teaching of undergraduate macroeconomics, *Telling Better Stories in Introductory Macro*; advice on how to survive as an unorthodox academic economist in a world of US academe, *Surviving as a Slightly out of Sync Economist*; to speculation about the future of the profession, *New Millennium Economics in 2050*. His discussion of the future of the profession makes it clear that he is not against mathematics and models *per se* — just their application without an understanding of the relevant institutional and operational detail. Academic economists will also find his views on the future structure of the US market for the education of economists particularly interesting.

In assessing Colander's thesis the obvious response is that it misses the point. The work of academic economists and the training of economists is already efficient; it is simply a reflection of comparative advantage. Academic economists have a comparative advantage in model construction while applied economists in government and the private sector have a comparative advantage in institutional detail. The additional two years and two months it takes to produce an applied economist is the lowest cost option. Colander (p. 68) rejects this view and stresses he is not arguing that we should ignore comparative advantage by having academics teach operational detail. He is arguing for recognition by academic economists that operational detail is important and that it has consequences for the development of relevant economic models. That Colander does have a point here can be illustrated by some recent work in monetary theory where neglect of operational detail has produced the sort of consequences he would predict.

There has been much work in recent years on the implications for monetary policy of the evolution of the monetary system to greater use of electronic means of payment. Examination of this issue reveals that some of the models employed are inappropriate and overlook simple operational facts. For example, some early attempts employed an Arrow-Debreu model but that set up was never intended for

analysis of policy issues in general or the evolution of the payments system in particular (Buiter, 1999). As Colander reports, when questioned about the policy relevance of his analysis Debreu replied that it has none. That has not deterred some academic economists from ignoring that advice. Colander's point is that many of the below-age 45 set of highly technical academic economists are not always as careful as a Debreu or a Lucas when it comes to promoting the policy relevance of their work. Consequently important policy questions are sometimes forced into a non-operational straight jacket with the inevitable result that any purported policy advice is simply ignored. This state of affairs could be avoided by a return to a focus on the art of economics at graduate school.

To sum up, both the COGEE report and Colander are asking only for a change at the margin — some exposure at graduate level to the importance of operational detail. As very few academic economists will make significant theoretical contributions Colander has a point that exposure to the art of economics at graduate school will yield a net benefit. Most academic economists will be involved with policy issues during their careers and even the theorists may find inspiration from real problems they would otherwise have overlooked. A notable recent example is Woodford (2001) who has produced some useful analysis after exposure to the operating procedures on the central banks of Australia, Canada, and New Zealand. Woodford's paper neatly illustrates Colander's stress on the importance for theoretical work of intricate operational detail. Whatever view one might take of Colander's thesis he continues to ask important questions and offer constructive advice about the direction the profession is taking. In the main he undertakes the task without getting bogged down in esoteric questions of methodology or the philosophy of science. Those who are interested in the health and future direction of the profession will find these essays a stimulating, if somewhat provocative, read.

References

- Blinder, A. (1998), *Central Banking in Theory and Practice*, MIT Press, Cambridge, MA.
- Buiter, W. (1999), 'The Fallacy of the Fiscal Theory of the Price Level', National Bureau of Economic Research, Working Paper 7302.
- Colander, D. and D. Daane (1994), *The Art of Monetary Policy*, M. E. Sharpe, Armonk, NY.
- Goodhart, C. (1988), *The Evolution of Central Banks*, The MIT Press, Cambridge, MA.
- Keynes, J. (1891), republished in 1955, *The Scope and Method of Political Economy*, 4th edition, Kelly and Millman Inc., New York
- Woodford, M. (2001) 'Monetary Policy in the Information Economy', National Bureau of Economic Research, Working Paper 8674.

Colin Rogers is Dean of the School of Economics at the University of Adelaide.