
E.L.'Ted' Wheelwright Lecture 2011

POLICY IN THE WAKE OF THE BANKING CRISIS: TAKING PLURALISM SERIOUSLY

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The article below is a shorter version of her full address. The full version has since been published as Policy in the Wake of the Banking Crisis: Taking Pluralism Seriously, International Journal of Applied Economics, vol 26, no 2, 2012, pp.161-175. A video of the full lecture can be viewed at: http://sydney.edu.au/arts/political_economy/about/news/?id=1437

Confidence in economics has been dented by the crisis. But what is reasonable to expect of economists? People joke about economists disagreeing, but is it feasible for there to be one best analysis, one best set of predictions and one best policy?

There are different theories within the standard, mainstream approach to economics. But there is a shared underlying framework which does presume that, in principle at least, it should be possible to come up with one best set of answers. The implication is that, if the answers were inadequate before the crisis, then a new better set of answers is required.

But what if it is in the nature of economies that it is inevitable that there will be different understandings of economic processes and therefore different views as to how to go about analysing them? What if economic policy advice is not just a technical matter but involves the exercise of

judgement by economists, including judgement about matters normally thought to be outside economics (such as moral considerations)?

We often hear about pluralism, within societies or within biological systems, for example. But there are also many economists who argue for a pluralist approach to the study of economies. This is because they see economies as complex social systems which evolve in ways which cannot be predicted with certainty, because habits and institutions change or because innovative behaviour creates new possibilities. There are different ways of going about analysing economies, and each economist has to decide which to pursue, but no one way can be shown to be absolutely the best.

In fact, while the mainstream approach described above dominates the discipline of economics, there is a large body of research and teaching which takes other approaches. These include post-Keynesian economics, institutional economics and neo-Austrian economics, for example. Pluralism would mean, not only accepting that such a range of approaches legitimately exists, but also fostering and nurturing diversity. Who knows what the next crisis will be like? Just as biological systems are more robust if there is diversity, so the basis for economic policy advice is more robust if it too can draw on a range of bodies of work according to whatever new problems arise.

Pluralism can be applied also at the level of the methods used by any one approach. While the mainstream approach insists that theories should be expressed and developed using mathematics, this in itself narrows down what can be analysed. We saw in the financial crisis, for example, that mathematical models which were based on measurement of risk within a given structure could not cope when the structure changed (when markets did not behave as predicted). But there are other methods which can help us build up a picture of the economy and an analysis of it; here too pluralism provides a more robust basis for policy advice.

Using a range of methods is particularly important for exercising judgement. Considering the best policy to address a particular situation usually means being able to understand the history of the situation, the institutional framework for policy, how policy would fit with specified policy goals and how different groups within society would react. Here we come to plurality in society itself. Different groups within society, like economists, have different understandings of how the economy works according to their own experience and their position within society

and may also have different goals. How policy addresses this diversity is primarily a political matter, but understanding this diversity has to be an important input into economic analysis.

Ultimately, in deciding on policy, governments need to settle on one analysis. Pluralism would mean however that this judgement would be reached on the basis of an understanding of the range of possible analyses and policy stances and the willingness to defend the final choice. A pluralist economist does not simultaneously hold several analytical opinions, but rather is willing and able to defend her analysis in relation to the analysis of others. Such a defence may well be fierce. But knowing that any analysis inevitably only captures some aspects of the underlying reality, a pluralist economist must be modest.

There is a limit to how far economists can understand a complex reality, far less predict the future. But fostering a range of perspectives and analytical methods would make economics much more robust in the face of unexpected developments than limiting it to one perspective and one methodological approach.

E.L. 'Ted' WHEELWRIGHT LECTURE 2012

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University of Essex, UK

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