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## WHY DO ECONOMISTS DISAGREE?

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**Q:** Why do economists disagree?

**A:** Disagreement between two people always implies that at least one of them is wrong, so the obvious explanation is that economists discuss issues that lack clarity.

**Q:** Is that because economics is a relatively young science?

**A:** No. There is no reason to suppose that economists disagree any more than (say) physicists. The simple fact is that the general public is more aware of the existence of unresolved problems in economics than they are of the existence of unresolved problems in physics.

**Q:** Surely, the more years that are devoted to a subject, the fewer the problems that remain unresolved?

**A:** Not at all. Progress in science has been likened to a clearing in a forest of ignorance. As the clearing grows, the circumference of ignorance also grows.

**Q:** So there is no reason to suppose that increased knowledge brings less disagreement?

**A:** None at all, but the issues over which there is disagreement will change.

**Q:** Is there any consensus among economists about anything?

**A:** It would be easier to cite issues where the consensus has either grown or diminished.

**Q:** In that case, give me two examples of each, in terms of the situation of, say, thirty years ago.

**A:** A greater consensus exists among economists that monetary policy is the primary determinant of inflation, and that thrift (saving) and investment yields are important determinants of interest rates. On the other hand, fewer economists would suggest that a permanent trade off exists between inflation and unemployment, or that co-operatives and nationalised industries deliver goods and services more efficiently than competitive markets.

**Q:** Are the changed views on those particular examples attributable to scientific progress?

**A:** Yes, in so far as those changes derive from evidence and the theory supporting that evidence.

**Q:** What is the evidence?

**A:** Some of the evidence is in the ‘stagflation’ that was a common experience where western economies pursued Keynes’s theory of demand management and in the failure of centrally planned eastern bloc economies to match western economic growth.

**Q:** So you are arguing that the economic performance of the eastern bloc was inferior to that of the west, but that of the west might have been better?

**A:** Yes.

**Q:** Is that a scientific conclusion?

**A:** Recall first (from another conversation) that conclusions can be both scientific and wrong. Even among those who might disagree with my conclusion, I would expect many would accept that it is based upon respectable economic analysis. So my answer is ‘yes’.

**Q:** When a conclusion is based upon ‘respectable economic analysis’ is it *necessarily* scientific?

**A:** Robert Solow (1996 Nobel economics prize-winner) has suggested that the remit of economics is to aid the organisation of incomplete perceptions about the economy, to see connections that an untutored eye would miss, and to tell plausible stories based upon a few simple principles’.

**Q:** Does that make economics a science?

**A:** According to Solow it would make economics a discipline, rather than a science; but I would disagree.

**Q:** You and Solow are both economists?

**A:** Yes, and on this, we do not agree.

**Q:** Is there a difference between a discipline and a science?

**A:** A discipline is a very general term. Science is much more specific. Each implies there is a set of rules to be followed, but a discipline is not necessarily a science. For example, Cistercian monks are constrained by a discipline (*i.e.*, a strict set of rules) but this is determined by religious dogma not by scientific method.

**Q:** So was Solow suggesting that economics is more akin to religious dogma than to scientific method?

**A:** No, of course not! The example of religious discipline was one of many that I might have cited to contrast with science. Sporting events, card games, traffic regulations and so on, are all governed by rules and codes of conduct. Participants in all of these diverse activities are engaged in a discipline. None is either scientific or religious. Solow was merely suggesting that his description of the remit of economics did not make it a scientific discipline.

**Q:** But you disagree?

**A:** Yes; and both Solow and I are economists.

**Q:** And at least one of you is ignorant?

**A:** You are very astute. In this instance, it is more likely that we are disagreed over what constitutes a science, rather than that one of us has information that the other lacks. Many disagreements derive from imprecise terminology.

**Q:** A question of semantics?

**A:** Yes, but this is a kind of ignorance: ignorance of the meaning that others attach to words.

**Q:** Can that be avoided?

**A:** Of course. The necessity to do just that is the reason for scientific jargon; *i.e.*, a very precisely defined vocabulary. This raises a special problem for economics in that it has tended to use the vocabulary of everyday language, rather than to develop its own jargon.

**Q:** You are saying that an absence of economics jargon has impeded understanding and created disagreement.

**A:** Yes; even the word 'economics' is used in a potentially misleading manner.

**Q:** Please explain the meaning of 'economics' and how it can mislead.

**A:** It means (from its Greek origin, *oikonomikos*) the management of a household. In respect of the theory of consumer behaviour (maximising satisfaction subject to a budget constraint) or the theory of the firm (maximising profits) this is a correct use of the word. However, when we focus upon the theory of market competition, there is nothing to be optimised; there is no concern (say) to maximise the volume of transactions or the magnitude of prices.

**Q:** So, what is market competition all about?

**A:** Market competition brings mutual advantages to all traders, whatever their particular and unknown objectives happen to be. More precise jargon for the latter is 'catallaxy' which means (again from its Greek origins, *katallatein* or *katallasein*) 'to exchange' or 'to make an enemy into a friend'. Although they might haggle long and hard, both seller and buyer are made better off by the deal. There is mutual satisfaction.

**Q:** 'Catallaxy' is a word not generally used?

**A:** No.

**Q:** How has the use of 'economics' been misleading in some particular sense?

**A:** It has especially encouraged a belief that the national economy can be run as a business, but 'Great Britain plc' is a misconceived notion, because there is no unambiguous and well-defined public welfare to be maximised.

**Q:** Has this caused problems?

**A:** Indeed it has. This misconceived notion led intelligent thinkers to suppose that (for example) the central direction of resources during war-time can be applied equally well during peace-time. Thus, Nicholas Monsarrat (author of *The Cruel Sea*) wrote in 1943, 'one does not hear of any active *determination* to make things better; there is a simple belief that they will be so, and that we have learned from

war-economies enough to revitalise the peace'. Yet, an economy at war *is* an 'economy', but an economy at peace is a 'catallaxy'. The former has a single objective: to defeat the enemy. The latter has none.

**Q:** I can see what you are suggesting, but I would imagine that there are economists who would disagree with you.

**A:** Most certainly there are. The political dimensions within economics are obviously relevant here. There is a respected socialist cause that is attractive to intellectuals who aspire to apply rational solutions to general social and economic problems.

**Q:** What is wrong with that?

**A:** Only that it cannot work. The complexity of the socio-economic order is such that it lies beyond the capability of any central plan to grasp or to manage.

**Q:** I suspect that is another controversial statement.

**A:** Yes, it is. There was a great debate among economists - 'the socialist calculation debate' - over these issues in the 1930s.

**Q:** Was anything resolved?

**A:** Yes, but precisely what was resolved depends upon the interpretation with which you feel most comfortable: which plausible stories you find most convincing.

**Q:** The debate was concluded but economists disagree over the conclusion?

**A:** Yes.

**Q:** Can we stop there?

**A:** Perhaps we should.