COMMENTARY

Alternative economics

A new student movement

Engelbert Stockhammer and Devrim Yilmaz

> Economics is in crisis. The profession is under attack from the media, employers and the general public. The economists we are producing are not performing the tasks society demands from them.[1]

The recent global crisis not only led to a questioning of mainstream macroeconomic theories and their relevance in designing economic policy, among the academic community and policymakers, but it also sparked a growing dissatisfaction with the way economics is taught in universities around the world. Recently, the student movement to reform economics education has consolidated globally and managed to find extensive media coverage. Here, we present a brief outline of the recent history of this student movement in Europe and in the UK, provide a critical assessment of its main strengths and weaknesses, and draw some broad conclusions and lessons for students, heterodox economists and similar social movements. We argue that the student movement should be seen as part of the broader social struggle against unfettered capitalism in the post-crisis period. However, in our opinion, while the student movement has been successful in drawing public attention to the problems in economics education and their social consequences, it has not yet achieved the desired reforms as universities and economics departments resist the change. We suggest that the dominance of mainstream economics in the curriculum is a direct reflection of the hegemony of the neoliberal agenda in the political sphere, and therefore a broader social movement that brings together students, trade unions and other marginalized groups is essential in order to break this hegemony.

The mainstream and the mutations

The student protests and their demands only make sense when one appreciates the theoretical and methodological narrowness of modern mainstream economics and how this has shaped the teaching of economics. Modern mainstream economics is a version of neoclassical economics that is based on methodological individualism: that is, any behavioural assumptions about the economy should be based on optimizing behaviour of rational (and normally selfish) individuals. There are variations. On the one hand, there are stricter neoclassical ('Walrasian') versions like the Real Business Cycle theory which insists on the assumption of continuous market clearing, where unemployment is regarded as an equilibrium phenomenon and is considered to be ultimately voluntary based on individuals' choices on leisure and work. On the other hand, there are New Keynesian approaches which argue that in the face of transaction costs, markets may not clear. The New Keynesians accept the framework of rational, selfish individuals, but do not invoke market clearing. Under some conditions optimizing individuals may choose to set prices so as to create excess supply. Thus, unemployment is understood to be involuntary and due to labour market rigidities (wage 'stickiness' or 'asymmetric information' on labour effort) or the market power of firms. Often the debate between those two positions is framed as one where there are different views about the short-run behaviour of economies, but both versions agree that in the long run the economy is anchored in a supply-side determined equilibrium – that is, the 'natural rate of unemployment', which corresponds to the long-run natural level of output determined by supply-side factors.

These two versions of contemporary mainstream economics do have disagreements and are able to span a variety of political views, but they agree that economic analysis has to be based on a methodologically individualist approach grounded in well-defined optimizing behaviour. Society, institutions, social norms, let alone classes or power relations, have no role. Further, they agree that an unregulated market (with perfectly flexible prices and perfectly informed individuals) would give optimal ('Pareto efficient') outcomes, and this belief constitutes the central reference point for economic analysis and policy evaluation. Other approaches to analysing economic phenomena are not just different, misguided or inferior, but are not considered as economics. Consequently, most leading economics journals do not publish articles that are not based on this framework. This is institutionally backed by a system of journal ratings, which inform promotions, hiring decisions and often research funding. In the UK these journal ratings directly inform RAE/REF assessments.[2]

The narrowing of the intellectual horizon of the economics profession dates from the late 1970s in Anglo-Saxon countries.[3] Before that, economics was characterized by an uneasy truce between mainstream Keynesians and the neoclassical tradition, which crystallized in the distinct fields of macroeconomics (the playfield of the Keynesians) and microeconomics (following strictly neoclassical principles). The two fields were quite different in terms of what were acceptable methodologies, often reaching different conclusions. For example, involuntary unemployment due to deficient effective demand was a standard feature in Keynesian macroeconomics, but in microeconomics full employment was achieved by wages flexibility (with no mention of demand issues). Economics faced two ways, but it got by.

Economics was also a more open discipline. Economic history was part of most economics curricula, as was the history of economic thought. Various heterodox traditions existed and, while clearly outsiders, were not yet expelled from the profession. In the Cambridge Capital Controversies of the 1960s leading mainstream economists engaged with the first generation of post-Keynesian economists, who attacked the marginal productivity theory of income distribution as logically inconsistent and advocated a surplus approach to production and distribution that was based on class analysis (partly inspired by, but also critical of, the Marxist labour theory of value and exploitation). Paul Samuelson, one of the leading mainstream postwar Keynesians, had published scholarly papers on Marxist theory of profits and the relation between prices and value. He was highly critical of Marxist theory, but considered it worth engaging with. That's not to say things were good by progressive standards; far from it. During the Cold War, Marxists were excluded from economics departments in most countries, but clearly the profession was a lot richer than it is today.

Today, critical or heterodox traditions within economics are marginalized and threatened by extinction as the age cohort that joined universities after the 1968 student movement nears retirement. However, several do exist: the post-Keynesian approach has been consolidated; Marxist economics, ever feuding, has weakened after its boom in the 1970s but various networks have persisted; and feminist economics has established a niche. All of them have their own associations, journals and conferences, but none of them is acknowledged in the economics textbooks, and all of them struggle to get minimal professional recognition. In the UK, with centralized research evaluation exercises, substantial parts of critical economic research have now migrated out of economics to other social sciences. International Political Economy (within Political Science) and Economic Sociology are growing fields.

The timing of the shift in mainstream economics coincides with the neoliberal revolution, so it is worth highlighting theoretical tensions and political overlaps. Neoliberalism is usually defined as a political project, but as a theoretical project it is hard to pin down. Neoliberalism has led to innovations on the fringes of economics, in particular the fields of Public Choice and Law and Economics, but its relation to mainstream economics is complicated. Substantial parts of the neoliberal tradition, namely those following Hayek, the so-called neo-Austrians, remain outside mainstream economics. They reject formalistic modelling and emphasize the role of uncertainty. They are thus often considered part of heterodox economics from a methodological point of view, but they tend to have similar policy recommendations to the mainstream. The Walrasian tradition in mainstream economics, on the other hand, often supports neoliberal policies – for example, financial deregulation – but has a very different and much more mechanistic conception of markets. The New Keynesian camp includes critics of neoliberalism like Joseph Stiglitz as well as proponents, like Stanley Fischer and Larry Summers. In its commitment to methodological individualism and to realism in accepting a role for institutions, it has often provided a framework for empirical analysis that eventually justifies neoliberal policies, as in the case of the so-called 'non-accelerating inflation rate of unemployment' (NAIRU) model that has been adopted by the OECD and IMF in advocating labour market flexibility.[4]

The state of contemporary mainstream economics is not only narrow but also potentially seriously dysfunctional. It may have provided the ideological underpinning of neoliberal deregulations, but it has offered very little to help understanding of, say, the working of financial markets. Modern mainstream economics is at its core a theory of a barter economy with no role for money beyond facilitating trade. Banks transform savings (by households) into credit for investing in business. There is no significance given to debt relations, no asset price bubbles and speculation, no exploration of the curious fact that most states have currencies and most monies are state-founded. Financial markets price financial assets rationally according to fundamentals (the so-called Efficient Market Hypothesis). Economic crises emerge (in today's state-of-the art Dynamic Stochastic General Equilibrium models) as the results of exogenous random shocks, which are not analysed within the model.

One important consequence of this is that the policies pursued since 2008 are to a large extent at odds with mainstream economics. Large-scale bank rescues, quantitative easing and so on are not based on any mainstream economic theory. Economic policy had to improvise in the face of the crisis. To illustrate the dilemma, consider the key term 'toxic assets' that featured prominently in the financial press at the time. This term does not make any sense in mainstream economics. Nor does 'panic'. But central banks have to deal with both. They expanded their balance sheets fourfold (thereby putting a floor under asset prices and saving the banks). Central banks now worry about the balance sheets of commercial banks and about housing price inflation. And they notice (even if they hate to admit it) that they do so without theory. So central banks, which had been at the forefront of the first wave of neoliberalism, are today, ironically, intellectually more open-minded than universities. The Bank of England has recently issued a report endorsing theories of endogenous money and even cites post-Keynesian authors (which mainstream journals would not). The world of financial investors is similarly selectively curious, and George Soros, hedge-fund speculator turned philanthropist, set up the Institute for New Economic Thinking (INET), one of the few economics research funding institutions through which heterodox economists obtain research grants.

What does all this mean for how economics is taught? It is hard for non-economists to appreciate how restricted the teaching of economics has become as a result of the dominant intellectual monoculture. Economics has one proper approach. There are no competing theories: in most economics courses students will never encounter Marxist, radical Keynesian, feminist or Institutionalist theories. They are not even mentioned in the textbook, let alone discussed in earnest. Most courses do not have required history-of-thought classes. Students may never have learned about the Great Depression or even the Asian financial crisis. There are very few classes on business cycles or economic crises. In the perception of students of critical inclination, it has become a field of applied mathematics that presents complicated and irrelevant models.

The protest

The dissent of students to the dominance of neoclassical economics in the curriculum is not new. As early as 2000, a group of French students organized under the name 'Post-Autistic Economics' was criticizing the teaching of economics for lack of realism, excessive reliance on mathematical techniques, and the dominance of the neoclassical approach. However, building upon the relatively stable conditions in Western economies and the euphoria brought about by the long boom years, neoclassical macroeconomics had announced its triumph over the conduct of economic policy prior to the Great Recession. Managing the economy successfully only required following a set of simple rules, according to which central banks would target inflation rates; fiscal policy was mainly irrelevant and capital controls were unnecessary.[5] In such a climate, dissenting voices were easily ignored, silenced or discredited. Policymakers and international institutions raced to celebrate the victory of free markets, and the new economic order, pointing at the long period of economic expansion during the bubble as the evidence for successful economic policy and design.

But the unforeseen Great Recession ruined the party. Not only had neoclassical macroeconomists not given any warnings of a forthcoming downturn but the scale of the crisis was so large that it threatened the integrity of global capitalism, raising unemployment rates to levels not observed in the industrial world for several decades and leading to widespread social unrest.[6] Coupled with the public anger towards excessive financial-sector salaries, bank bailouts and cuts in social spending, macroeconomic policy decisions on financial regulation, the structure of the monetary system, capital taxation and austerity became central topics in the public discussion space. Social movements such as Occupy Wall Street managed to gain significant public support for a short period of time before being contained and fading away gradually.

On the other hand, several heterodox economists, such as Steve Keen, Wynne Godley, Michael Hudson, Dean Baker and Jim Crotty, had been warning of a severe crisis because of the rising household debt levels and property bubbles since as early as 2003, as documented in detail by Bezemer.[7] The 'unexpected' nature and the magnitude of the recession that followed the collapse of Lehmann Brothers in September 2008 provided these heterodox economists with an unprecedented opportunity to access a much larger audience. Similarly, prominent heterodox thinkers such as Minsky, Marx and Hayek gained popularity in the financial press and in social media in the post-crisis period, as heterodox economists who had correctly warned of the dangers of financial instability had frequently referred to these thinkers.

It was in this environment that the student dissent towards the teaching of economics revived. Surrounded by the public discussion on macroeconomic policy and exposed to a variety of heterodox ideas, particularly in the press and blogosphere, student groups once again started criticizing the unrealistic, socially detached nature of mainstream economics, and its absolute monopoly in the economics curriculum. Following the emergence of student organizations such as Peps-Economie in France early after the financial turmoil in 2009, the movement found strong support in Germany, where in 2011 economics students at the University of Tübingen set up the reading group Rethinking Economics and organized two conferences under the same name in 2012 and 2013, offering workshops on various issues such as philosophy of economics, the history of economic thought, complexity economics and post-Keynesian economics. The collaboration of this group with fourteen similar student societies, researchers and lecturers in Germany subsequently led to the emergence of Network for Plural Economics.[8] In the US, on the other hand, a group of around seventy students walked out of Gregory Mankiw's introductory economics module at Harvard University to express solidarity with the Occupy movement, arguing that the module is heavily biased towards the promotion of conservative economic policies.

The UK-led student movement, initiated by the Post-Crash Economics Society (PCES) at the University of Manchester, started a new round of discussions on pluralism. The group demanded modules on heterodox approaches to economics, as well as more real-world-oriented and interdisciplinarity economics teaching. Upon the rejection of their demands by the university, PCES organized evening lectures for a non-credit module called 'Bubbles, Panics and Crashes: An Introduction to Alternative Theories of Economic Crisis', which covered heterodox crisis theories and the history of financial crises. In the last year, the group also organized numerous public lectures delivered by prominent post-Keynesian, Marxist, Institutionalist, Austrian, feminist and ecological economists. Further, PCES released a comprehensive report on the economics curriculum at Manchester in May 2014, identifying several areas for improvement and proposing heterodox-oriented modules.

The success of PCES in popularizing the discussion on the reform of economics education and the extensive support it received from policymakers, academics and employers both led to the emergence of similar societies in universities across the UK and paved the way for a global organization of individual student groups. In May 2014, the International Student Initiative for Pluralism in Economics (ISIPE), a collaboration of sixty-five associations of economics students from over thirty countries, announced an international student call for pluralism in economics in an open letter. The Rethinking Economics conference series, initially organized by students at the University of Tübingen, evolved into a global network of students, academics and civil society groups, and organized two large conferences in London and New York in September 2014.

The response

Although the pressure on mainstream economists who were facing heavy criticism from students, policymakers and the financial press led to some initially promising developments and dialogue, attempts at reform have so far sought to preserve the intellectual dominance of mainstream economics in both academic and educational spheres. In the UK particularly, a discussion group consisting of largely mainstream employers and policymakers was formed following a Bank of England conference on the teaching of economics in 2012. As summarized by Coyle, the group agreed that the students should be given a higher degree of awareness of economic history and a deeper understanding of limitations of economic modelling and mainstream economic methodology. While the group acknowledged the need for a greater degree of pluralism in economics teaching and the necessity to confront different theoretical frameworks with evidence, in an iconic example of a self-defending paradigm, it also asserted the superiority of mainstream economics as a toolkit for economic analysis, despite its apparent failure to explain economic phenomena. In essence, the group's report stated that the 'heterodox approach should not be confused with pluralism'.[9] The report neglected the epic failure of 'state-of-the-art' mainstream economics before the Great Recession and portrayed the deficiencies in the teaching of economics as the result of the inability of mainstream economists to incorporate into the curriculum the latest developments in their research. In accordance with this perspective, the group's proposals for reform mainly consisted of an updated and more data-intensive teaching of mainstream economics, allowing only some agent-based and computational economics to find some space in the new curriculum.

Nevertheless, although the student movement has so far been successful in centrally organizing autonomous groups and widely publicizing the problems with economics education, it has not yet managed to generate the necessary steps towards a meaningful reform. University departments remain resistant to change in the curriculum, and mainstream economists defend the academic and pedagogical hegemony of their paradigm, despite mounting counter-evidence and widespread dissent. This resistance can also be clearly observed in the recent attempt to reform the teaching of economics by an international group of economists as part of a large project funded by INET. The Curriculum Open-access Resources in Economics (CORE) project, led by Wendy Carlin from University College London, builds on the outcome of the UK discussion group outlined above, and therefore shares the same vision on how economics education should be modified. As a result, the first curriculum item published online by the project simply re-presents the premisses of mainstream economics in a more engaging way, with a blend of economic history and recent data. The item contains little sign of pluralism, other than a few references to Marx, Hayek and other heterodox thinkers in small boxes throughout the chapters, while the basic building blocks of mainstream economics such as marginalist decision-making, equilibrium, and market clearing prices make up a large part of the book. As such, it has been criticized by Rethinking Economics and ISIPE for lacking broad content, methodological pluralism and an interdisciplinary approach.

The result

How shall we assess the economics students' protest? On the one hand, there are impressive achievements. Students have set up groups in thirty countries and effectively coordinated to launch their manifesto. These have been covered in major newspapers and received backing from prominent critical voices within the mainstream. They have put real pressure on economics departments to justify what they are doing. That is more than the persistent work of many critical economists have achieved through the years. On the other hand, the vast majority of economics departments have not changed the way they teach economics, let alone the standards by which they hire lecturers. Certainly at Manchester University, which has an extraordinarily well-organized student group, the economics department has shrugged off the students' demands. As of now, neither university administrations nor the general public have effectively supported these demands.

The economics students' movements should be seen in the context of the social struggles that have occurred in the wake of the crisis, which involve various forms of organizing and different strategies. In this context we note that while popular social movements such as Occupy and recent student protests were the outcome of similar social dynamics, and both have, for a while, received substantial media attention, there are also major differences between the two. First, although both movements consisted of supporters from a broad political spectrum they have developed quite different strategies. Whereas Occupy emphasized grassroot democratic processes and refused to define a common set of specific demands, the student protests managed to focus their attention on a set of concrete minimum demands, such as new modules on heterodox economics or new textbooks. Indeed, most of the student demands are objectively modest. It is only in the context of an extremely narrow-minded mainstream that they become radical. Second, there is a curious geographical asymmetry. While the economics student protests began earlier in the USA, they have really gained momentum only in Europe.

The student movement has invigorated heterodox economics. And it is vital that heterodox economists maintain support for the student movement, in particular by providing a coherent alternative set of curriculum items, and putting further pressure on mainstream departments for a meaningful reform. The development of a new set of teaching tools is essential, since one of the main advantages of mainstream economics education is its consolidated monopoly particularly in the textbook market, which makes it very difficult to design heterodox teaching modules.

Student groups also need to seek support from a wider set of social networks such as labour unions, dissenters in real and financial sector and policymakers in governments. While student demands seem revolutionary to the narrow-minded mainstream, from the perspective of university managements they are relatively modest and could easily be accommodated. Putting pressure on university managements through broader social alliances will increase the possibility of success significantly. Such a process is already taking place in Germany, for instance, where the main think-tank of the trade unions (the Böckler Foundation) is funding a project by Network for Plural Economics that is developing a ranking of economics departments according to the heterodox content of their curriculums. A successful reform of economics education is closely linked to the broader social agenda of breaking up the hegemony of neoliberalism, which requires a strong connection among various resisting groups.

Notes

1. http://www.post-crasheconomics.com/economics-education-and-unlearning.
2. In the UK the *Association of Business School's Academic Journal Quality Guide* (www.associationofbusinessschools.org/sites/default/files/Combined%20Journal%20Guide.pdf) is one of the most widely used journal ratings. In the German-speaking countries the *Handelsblatt* journal list plays a similar role: www.handelsblatt.com/downloads/9665428/1/Journal-Ranking. See also Frederic S. Lee, Xuan Pham and Gyun Gu, 'The UK Research Assessment Exercise and the Narrowing of UK Economics', *Cambridge Journal of Economics*, vol. 37, no. 4, 2013, pp. 693–71.
3. In other countries the cleansing took place later. France has a richer social sciences-informed tradition in economics, with French Regulation Theory a prominent example, but that generation is retiring and young economists there face in the meantime similar conditions as in the Anglo-Saxon countries. Germany never had a strong a Keynesian tradition; the shift was one from the less formalistic ordoliberal tradition to the more modelling-oriented Anglo-Saxon type.
4. See Engelbert Stockhammer and Paul Ramskogler, 'Post-Keynesian Economics: How to Move Forward', *European Journal of Economics and Economic Policies: Intervention*, vol. 6, no. 2, 2009, pp. 227–46.
5. Olivier Blanchard, G. Dell'Ariccia and P. Mauro, 'Rethinking Macro Policy', 16 February 2010, www.voxeu.org/article/rethinking-macro-policy.
6. Raghura Rajan's 2005 Jackson Hole Speech on financial innovation is one of the few exceptions within the mainstream. See Raghura G. Rajan, 'The Greenspan Era: Lessons for the Future', speech at 'Financial Markets, Financial Fragility, and Central Banking: A Symposium Sponsored by the Federal Reserve Bank of Kansas City', 27 August 2005, Jackson Hole, Wyoming, https://www.imf.org/external/np/speeches/2005/082705.htm.
7. Dirk J. Bezemer, '"No One Saw This Coming": Understanding Financial Crisis through Accounting Models', MPRA Paper No. 15892, 2009.
8. www.plurale-oekonomik.de.
9. Diane Coyle,'Teaching Economics After the Crisis: Report from the Steering Group', *Royal Economic Society Newsletter* 161, April 2013.