On "Relevance" in Economics: Investment Portfolios versus Social Revolution

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The article by Tilford C. Gaines, New York banker and economist, in the initial issue of the Eastern Economic Journal, "Relevance in Economics," offers a distinct and needed challenge to economists. Gaines' critique of the current state of the "science" focuses on the failure of the economics profession in recent years to anticipate significant economic events (and crises), to understand and explain the forces which have produced those events, and, finally, to offer positive, productive means for dealing with many of these problems. The indictment is certainly not original; but it does bear useful repetition. Economists, like every one else, need encouragement—and advice.

However, readers of the Journal should not be left with an incomplete and misleading interpretation of the meaning of "relevance." The proper questions for economists may not be how to maximize the returns of the investment portfolios (no matter what kind of a method they utilize) of a few wealthy clients of Manufacturers Hanover Trust (or to advise others how to do so for a handsome consulting fee) or how to maximize the flow of petroleum and petroleum products into the U.S. More relevant questions might well be whether or not economists ought to try to maximize profits for the top of the income distribution and whether or not the U.S. should continue "fixing" its oil addiction. I do not mean to suggest that Gaines did not encourage economists (especially academics) to do relevant work or that such an exhortation is not a worthy one, but rather to suggest that there is a more radical and broader interpretation of "relevance" than that with which he has presented us. The pursuit of relevance in economics requires attention to difficult problems—and perhaps critical attention at that!

Gaines' analysis of economists' recent failures to pay adequate attention to the relationship of micro-economics to macro-economics and to the external costs of production is quite correct. The meaninglessness of macro-economic models based on aggregate demand in which economists are "... confined to playing games with macro concepts" brought about a failure to recognize and anticipate severe world-wide materials shortages. And the lack of concern with accounting for external costs brought us to our present state of the environmental crisis. These trends were viable and predictable. But the profession as a whole was hardly in the vanguard of prophecy. These indictments are well-known and becoming increasingly accepted both within and outside the profession. The challenge is to develop methods of analysis and policy prescriptions which begin to involve direct concern with issues of macro and macro supply and with the environmental dimensions of production. Gaines thus explains the failure of economics as arising from an over-excessive obsession with the precision and the consistency of the numerous macro-econometric models and from the acceptance of external costs as just that. However, there are some additional possible reasons for economists' failures. One very fundamental limitation of the body of accepted micro and macro economic theory in the Western world is its virtual lack of concern with the social relationships of production and its continued acceptance of the capitalist economic system (and its economic relationships and institutions). The macro-models are predicated on that system and the relationships within it. The possibility of alternative relationships and institutions is assumed away. The micro-theory also for the most part has accepted the non-accounting for of external costs because it has accepted the institution of private property: the social costs of production are external to the present institutions which perform production in the capitalist system—privately owned businesses. Thomas Vitoria's article, "Economic Policy Design: Principles and Urban Applications," in the same issue of the EJ is a remarkable treatment of this fundamental limitation of economics.

Specifically, Vitoria suggests that the solutions that economists offer to problems not be limited to the institutional context of the current economic system. It is possible that the best solutions to economic problems might involve alternative relationships and institutions. Stated another way, different economic arrangements might be more suited to dealing with certain kinds of economic problems. One could easily take this argument a step further and argue that, indeed, an entirely new form of economic system might be able to solve the set of economic problems which Western economies, and the U.S., will face over the coming decades. Not only should economists seek to be more relevant with respect to the problems that they choose to deal with and the methods of analysis that they utilize, as Gaines suggests, but they also should begin to consider broader possibilities for solutions to those problems. Not only should the problems and the methods be relevant, but the solutions should be, too. If the solutions are "irrelevant," it won't matter, in the end, how relevant the method of analysis has been. It's possible that correct solutions to problems are not discovered, because relevant solutions are, for some reason, not considered.

With reference to the U.S., I would suggest that economists should begin to open up the possibilities of examining solutions which might involve systemic changes in institutions and relationships. More precisely, I would argue in favor of the consideration of socialist alternatives. Admittedly, economists who bothered to consider socialist alternatives would probably be those inclined to favor these alternatives to the present capitalist system and institutions.

However, an honest search of our economic problems and for solutions to those problems ought to consider all of the possibilities. The wider the range of solutions considered, the more likely that the process of searching will come up with workable and successful solutions. I would favor, presently, socialist solutions to many of today's economic problems; in fact, I accept the need for a peaceful socialist revolution in the U.S. Socialist solutions to many of the current economic problems facing the U.S. seem particularly relevant, given the fact that most of the problems stem from the operation of the private capitalist system and/or are of a social (society-wide) nature. But even for those not prepared to accept such massive change at the moment, the society would benefit from open consideration of such alternatives. If it is possible that alternative systems and institutions might address themselves more adequately to the problems that we face, such as raw materials shortages, co-existing inflation and recession, a 5% (or higher) "natural" rate of unemployment, pollution of our air and water, poverty and economic priorities, then American society would benefit from the time...
and efforts spent by economists attempting to work through the implications of various possible alternative economic configurations. What would be the effect of social ownership of raw materials shortages, pollution problems, poverty, the co-existence of inflation and unemployment, the "natural" rate of unemployment, and economic priorities? This is a serious question which needs to be addressed. Only when it is answered can economists claim to have considered fully the problems and their solutions and to have offered the best solutions. I would hope that American economists would direct themselves increasingly to such research as they begin to work on today's relevant problems.

Gaines is correct in urging that we begin to utilize our knowledge of micro-economics more fully in dealing with macro-economic problems and that we pay more attention to external costs. But we cannot stop there; we must be circumspect in our use of the tools available to us and in the scope of our inquiry. We should not allow ourselves to be limited by artificial or historical conditions and institutions (or economic theories). We must broaden the range of our analysis.

By way of a simplified example of what I mean, let me cite a case that Gaines uses in his argument—the Alaskan oil pipeline. He presents the conclusion that a relevant cost-benefit analysis, based on micro-economics, macro-economics, and considerations of environmental costs, could not have reasonably justified the delay in beginning the construction of the pipeline. By no means, however, is his answer intuitively obvious. Only a cursory list of some of the costs of building the oil pipeline that usually don't come to mind, or get suggested indicates the limitations of Gaines' conclusion: the continued petroleum addiction of the American people and their entire economic system; the continued industrial and automobile pollution that comes from that use, the continued over-use of a resource that has been artificially understated for almost 50 years in the U.S., and the continued federal and state subsidies to a particular sector of the economy (i.e., the energy cartel), and the continued centralization of political power associated with the centralization of economic power. Gaines' analysis is severely limited by his inability to seek out or to consider alternative possibilities for the future. He accepts America's oil dependence, the position of the oil companies in the economy, the favored status of the oil companies which have created our oil dependence, and the ability of the oil companies to translate their economic power into political power. His concern, then, is to get the oil and to keep the oil industry and the economy functioning smoothly.

But shouldn't we be concerned, as citizens and as economists, with a much broader range of questions? Do we want to continue our oil dependence? Do we want to let the oil companies solve our future energy needs and problems through the mechanism of the private enterprise profit system? Will that profit system provide us with the solutions that will benefit the entire society? Oughtn't we to be concerned with the distributional effects of the various alternatives? Should we even discuss the energy alternatives? Or should we instead focus on the energy policy? Gaines concludes his piece with the observation that the flow of money to academic and non-academic economists covers a very limited range of problems and methods. One should also add that the range of solutions considered is also limited. There are reasons for that which should be obvious to everyone. Big business is not likely to support the work of young (or old), radical political economists. Nor is the federal government. And that certainty is where the money is these days. Those who are seeking broader alternative solutions to American economic and social problems are waiting for the money and the support. And it's not to do work on investment portfolios! The large and small and long-run and short-run economic and social problems that we face are not likely to be solved by those concerned with private investment portfolios. Which is not to say that they will not be the ones who are given the support and the responsibility for doing so. But if we fail to widen our consideration of solutions to our critical problems and to support such broader efforts, successful solutions to those problems are less likely to be suggested, considered or adopted. As the over-used, but still accurate, statement of E. F. Cleaver goes: "If you are not part of the solution, you are part of the problem." We might change that to: "If you are not concerned with all possible solutions, you are part of the problem."