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9 September 2014

RESEARCH

ECONOMICS

A struggle for legitimacy

Economics is preoccupied with authority rather than theory

Economics has struggled for legitimacy and authority throughout its history. It incorporated ideas and principles from other scholarly disciplines to create the façade economics is the queen of social sciences. The Physiocratic school used medicine to create the circular flow of income. Classical economists used the enlightenment to justify self-interest and the benefits of a competitive market. The Austrian school of economics utilised mathematics to explain corporate and consumer behaviour. The new classical macroeconomic school was based on mathematics. It failed to provide an adequate explanation of economic theory or examine economic problems. Nineteenth century scholars did not believe economics deserved a faculty at university. Disdain for economics was evident at the creation of the Nobel Prize. Friedrich von Hayek, a distinguished economist and economics laureate asserted economics did not deserve a Nobel Prize.

The Physiocratic school utilised medical knowledge to provide a foundation for economics. Francois Quesnay, the court physician to King Louis XV of France believed wealth flowed through the economy from income generated from agricultural surpluses. Rent, wages and transactions flowed between the sectors of the economy. Quesnay's *Tableau Economique* provided the foundation for the circular flow of income. Employers reward employees with salaries and wages. Employees use a proportion of their disposable income to purchase goods and services. Income and consumer expenditure are flows. Another proportion is dedicated to saving. A proportion of income is paid in tax. Corporations pay a proportional tax. Savings is a leakage and taxation an injection in a circular flow of income model using the three sector model. Flows, leakages and injections are akin to blood supplying the sectors or organs with the necessary nutrients to exist.

Classical economics is considered the first significant school of economic thought. The classical economic school became prominent with the publication of Adam Smith's *The Wealth of Nations*. Smith, a Scottish philosophy academic advocated the market forces of demand and supply should regulate the market price and quantity through the invisible hand. David Ricardo espoused the concept of comparative advantage. Countries would pursue international trade without artificial trade barriers and it would allow them to exchange the most efficiently produced goods.

The ideals of the enlightenment are present in the doctrine of classical economics. European society emerged from the collapse of feudalism. The invisible hand reflects Smith's desire to create a system of natural liberty. Individual effort would be rewarded and benefit society. Competition would restrain the most selfish individuals in society. The pursuit of self-interest would result in demand and supply adjusting prices to reflect intrinsic value rather than artificially inflated prices. Engaging in trade and commerce without government interference reflected the right of an individual to freely pursue a life of liberty.

The term 'classical' is an attempt to evoke the yearning for classical antiquity and provide an intellectual foundation for economics. The classical economists provided the foundation for macroeconomics. Macroeconomics encompasses the relationship between consumption, saving, investment, finance, government expenditure, international trade and national income. The classical economics model of the national economy became the basis for understanding an economy. The ideals of the enlightenment are present in the assumptions endorsing the model, such as labour mobility, international capital mobility and consumers motivated by financial incentives. The ideas have exerted tremendous influence akin to classical antiquity.

The Austrian school of economics applied mathematics to economic theory. The Austrian school emerged in the 1870s after the publication of Carl Menger's *Principles of Economics*. Menger was an Austrian mathematician and applied his mathematical talent and expertise to economics. Mathematical techniques were implemented to assess and evaluate the behaviour of the consumer and the individual enterprise. Differential calculus was the main mathematical instrument used to determine the marginal utility of consumption, saving and the marginal cost of producing goods and services for an enterprise.

Mathematics continued to be an integral characteristic of the second generation of the Austrian school. Eugen von Böhm-Bawerk, a professor from the Universities of Innsbruck and Vienna was the most influential Austrian economist in the second generation. He devised theories concerning interest and capital. Marginal utility was instrumental in von Böhm-Bawerk's theory of interest and capital. The theories continued the tradition of differential calculus in the development of economic theory. The concepts of marginal utility and marginal cost contributed to the development of neoclassical economics.

New classical macroeconomics sought to provide neoclassical economic foundations for macroeconomic analysis. The school began in the early 1970s by economists at the Universities of Chicago and Minnesota. Robert Lucas and Leonard Rapping began the revival of macroeconomics by providing microeconomic foundations for the Keynesian labour market. The economists utilised the principle market equilibrium occurs when quantity equals supply. The theorem rejects involuntary unemployment. Involuntary unemployment describes a situation when the supply of labour exceeds the demand for labour.

The rational expectations hypothesis provided the foundation for the new classical macroeconomic school. The hypothesis considered future economic expectations paramount.

Economic predictions were vital in affecting individual expectations. An individual's expectations would be influenced by correct economic predictions. The long run Phillips curve was created to examine the effect of expectations. New classical macroeconomics economists rejected the Phillips curve examining a compromise between the level of inflation and the level of unemployment. An increase in aggregate demand resulted in a decrease in the level of unemployment. It occurred due to unanticipated inflation. Mathematics is an important instrument for new classical macroeconomics economists to express their perspective.

The new classical macroeconomics school dominated economics from the 1970s until the present. However, the international economic and financial crisis in 2007 and 2008 affected the legitimacy of the school and economic theory. The dominance of new classical macroeconomics corresponded with the dominance of mathematics in academic and professional economics. Mathematics created the illusion economics deserved its status as the queen of social science and authority. In reality, economics does not offer a panacea. Economic prediction is rarely accurate.

Universities did not consider the study of economics to be worthy of scholarship. European and North American universities did not create a faculty of economics until the last decade of the nineteenth century. Harvard University established the Department of Economics in 1897. Most university economics faculties were established in the twentieth century. The University of Cambridge Department of Economics and Politics was established in 1903. Scholars expressed disdain and disinterest for the emerging discipline of economics. Simplistic assumptions and simplistic models dominate the discipline rather than provoking students to ponder ideas and encourage independent thought.

The Nobel Memorial Prize in Economic Sciences reflects the struggle economics has experienced to establish and maintain credibility. The economics prize was not created when the first Nobel prizes were awarded in 1901. The first economics prize was awarded in 1969. The Nobel prizes are awarded to "those who, during the preceding year, shall have conferred the greatest benefit on mankind." Alfred Nobel believed prizes in physics, chemistry, physiology, literature and peace contributed to the benefit of humanity. Economics did not deserve an accolade. Friedrich von Hayek an Austrian economist and 1974 Nobel Prize economics laureate stated his objection to an economics prize. He admitted during the Nobel Prize banquet speech "if I had been consulted whether to establish a Nobel Prize in economics, I should have decidedly advised against it" He believed a "Nobel Prize confers on an individual an authority which in economics no man ought to possess."

Economics has struggled for legitimacy throughout its existence. Implementing ideas from medicine, philosophy and mathematics attempted to improve its status among other disciplines and to gain recognition from universities. Many intellectuals continue to express disdain for economics. Economics created the façade of authority and influence. Economic theory and techniques cannot conceal overwhelming evidence economic prediction is rarely accurate or useful. The Nobel Memorial Prize in Economic Sciences provides a metaphor for the historic struggle the discipline experienced and continues to confront.