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OP-ED COLUMNIST

# The Return of History

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Some brilliant scholar has to write a comprehensive history of modern economics because the evolution of this field is clearly one of the most consequential things happening in the world today.

Act I in this history would be set in the era of economic scientism: the period when economists based their work on a crude vision of human nature (the perfectly rational, utility-maximizing autonomous individual) and then built elaborate models based on that creature.

Act II would occur over the past few decades, as a few brave economists tried to move beyond this stick-figure view of humanity. Herbert Simon pointed out that people aren't perfectly rational. Gary Becker analyzed behaviors that don't seem to be the product of narrow self-interest, like having children and behaving altruistically. Amos Tversky and Daniel Kahneman pointed out that people seem to have common biases when they try to make objective decisions.

This part of the history would be the story of gradually growing sophistication and of splintering.

Then the story would come to Act III, the economic crisis of 2008 and 2009. This act is a climax of sorts because it exposed the shortcomings of the whole field. Economists and financiers spent decades building ever more sophisticated models to anticipate market behavior, yet these models did not predict the financial crisis as it approached. In fact, cutting-edge financial models contributed to it by getting behavior so wrong — helping to wipe out \$50 trillion in global wealth and causing untold human suffering.

This would bring the historian to Act IV, the period of soul-searching that we are living through now. More than a year after the event, there is no consensus on what caused the crisis. Economists are fundamentally re-evaluating their field.

“Where were the intellectual agenda-setters when this crisis was building?” asked Barry Eichengreen of the University of California, Berkeley, [in The National Interest](#). “Why did they fail to see the train wreck coming?”

In *The Wall Street Journal*, Russ Roberts of George Mason University wondered why economics is even considered a science. Real sciences make progress. But in economics, old thinkers cycle in and out of fashion. In real sciences, evidence solves problems. Roberts asked his colleagues if they could think of any econometric study so well done that it had definitively settled a dispute. Nobody could think of one.

“The bottom line is that we should expect less of economists,” Roberts wrote.

In a column called “A Crisis of Understanding,” Robert J. Shiller of Yale pointed out that the best explanation of the crisis isn’t even a work of economic analysis. It’s a history book — “*This Time is Different*” by Carmen M. Reinhart and Kenneth S. Rogoff — that is almost entirely devoid of theory.

One gets the sense, at least from the outside, that the intellectual energy is no longer with the economists who construct abstract and elaborate models. Instead, the field seems to be moving in a humanist direction. Many economists are now trying to absorb lessons learned by psychologists, neuroscientists and sociologists. They’re producing books with titles like “*Animal Spirits*,” “*The Irrational Economist*,” and “*Identity Economics*,” about subjects such as how social identities shape economic choices.

This amounts to rediscovering the humility of an earlier time. After all, Adam Smith was a moral philosopher, Friedrich von Hayek built his philosophy on an awareness of our own ignorance, and John Maynard Keynes “was not prepared to sacrifice realism to mathematics,” as the biographer Robert Skidelsky put it. Economics is a “moral science,” Keynes wrote. It deals with “motives, expectations, psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogenous.”

In Act IV, in other words, economists are taking baby steps into the world of emotion, social relationships, imagination, love and virtue. In Act V, I predict, they will blow up their whole field.

Economics achieved coherence as a science by amputating most of human nature. Now economists are starting with those parts of emotional life that they can count and model (the activities that make them economists). But once they’re in this terrain, they’ll surely find that the processes that make up the inner life are not amenable to the methodologies of social science. The moral and social yearnings of fully realized human beings are not reducible to universal laws and cannot be studied like physics.

Once this is accepted, economics would again become a subsection of history and moral philosophy. It will be a powerful language for analyzing certain sorts of activity. Economists will be able to describe how some people acted in some specific contexts. They will be able to draw out some suggestive lessons to keep in mind while thinking about other people and other contexts —

just as historians, psychologists and novelists do.

At the end of Act V, economics will be realistic, but it will be an art, not a science.

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