

Of economists and historians

A plea to rescue economics from the jaws of science and hand it back to the humanities

As an erstwhile keen graduate student of history who stumbled into finance and economics as a professional hazard, I was not a little bemused by the recent spat between Paul Krugman and Niall Ferguson, first in public debate, and subsequently spilling over onto the pages of *Financial Times*. Unsurprisingly, the Nobel Laureate and Princeton economist faulted the Harvard historian for his shallow understanding of economics, in this case the theories of John Maynard Keynes. How could fiscal deficits and quantitative easing by central banks exert upward pressure on interest rates and prices, argued Krugman, when these are merely substituting for private demand in a depression?

As it turns out, Ferguson does know his Keynes, but has also read Karl Marx the historian who was acutely aware that moments in history are never repeated no matter how similar they might appear. All historical events occur as it were twice, he argued, the first time as a tragedy, the second time as a farce, while comparing Napoleon III with THE Napoleon. Since this is not the Great Depression, economists have struggled to come up with the right mix of policy tools to address the current global crisis. While helpful, the lessons derived from the Great Depression seem hardly adequate.

Krugman's judgment may well be nearer the mark than Ferguson's, but that is not the point. It is the presumption that the science of economics is somehow subject to some universal, natural laws which is the issue. Graduate students of history in my time were all too frequently at the receiving end of such below-the-belt punches. Economists, after all, were the awesome rocket scientists of the social sciences, complete with calculus, regressions, complex equations and econometric models. The Nobel Prize Committee amplified their rocket science status. Historians were empiricists par excellence, whose explanations were intangible, long-winding and subsumed in lengthy narratives. They had no methodological tools of their own, for which they fell back on other disciplines such as sociology, anthropology, political science, philosophy, psychology, archaeology, demography, even physics at times, and, *inter alia*, economics. Even the narrative was borrowed from literature. Who would even consider a historian for a Nobel Prize?

Historians are perennially afflicted by self-doubt, much like Woody Allen in his trademark movies: Was why things turned out the way they did any different from how



Illustration by BINAY SINHA

they turned out? Were all historical explanations merely a particular point of view, and could there be different equally valid ways of explaining the same past? Perhaps each generation had to rewrite history since they asked different questions of their past? Can you really know the past as it really was? Are historical facts really facts or pre-selected events refracted through ideology? What is a historical fact anyway? Your reading this newspaper is unlikely to be classified as a historical fact, right? But what if you were the first human with whom intelligent extraterrestrials established contact, and this occurred at the precise moment you were reading this paper? Caesar's crossing the Rubicon is a fact of history because it was a turning point in history. Otherwise the crossing would have gone unrecorded, like several crossings before and after.

Fascinating though such questions are, since they are given to philosophical self-doubts, historians generally keep to themselves and their obscure treatises. They are not given to striking back at economists who are generally precise and sure about all that they do, even though economists advising policymakers are known to spawn more than two hands. Uncharacteristically, Niall Ferguson the historian hit back. The cat was perhaps emboldened to look the lion in the eye on account of the collateral damage to economics' status as a rocket science by the current global crisis, and its consequential relegation as a humble social science, buffeted by the unpredictable

winds of human choice, cultural differences and change over time. Like history has always been. The rational, profit-maximising and predictable *homo economicus* that has made economics the dismal science, is simply not *homo sapiens sapiens*.

What is the difference between rocket science and social science? While tomes can be, and have been, written on the subject, there is a simple 'apple' test derived from the great philosopher, Karl Popper. Newton is famously known to have stumbled upon his theory of gravity through an epiphany observing apples falling to the ground. Because the theory of gravity lays claim to universal validity, you can on its basis predict that every apple will eventually fall to the ground, when certain conditions relating to maturity, wind strength, inertia, etc, are satisfied. The flipside of the prediction is that it needs just one apple to head skywards instead of falling to the ground to disprove the theory of gravity. You can also, on the basis of such predictions, send a space probe to Jupiter. The predictions of economists, on the other hand — just look at successive growth revisions to IMF's World Economic Outlook — go awry most of the time. Yet the underlying theories seem to survive amongst their adherents, and continue to be used for predicting the future as if they were natural laws. There are two disciplines one can think of that continue making predictions that are repeatedly disproved in the real world, and yet continue to claim a wide following. One is astrol-

ogy, and the other is theology.

This is not a plea for debunking economics for, like history, it has very powerful tools to understand the world and also give insights into our future. If history is amongst the oldest of human disciplines, trade, exchange and surplus distribution — the stuff economics is made of — are known to exist in most primitive human societies, and several ancient texts such as Kautilya's *Artha Shastra* and Ibn Khaldun's *Muqaddimah* deliberated these matters over the ages, long before the classical economists of the seventeenth century. If only the socialist regimes of the twentieth century had heeded the sage advice of the 14th-century Arab part-time economist that 'the trading of the ruler may cause the destruction of civilisation and hence the destruction of the dynasty!' I have learnt as much from economics as I have from history not only to understand the real world but also for formulating policy as a civil servant. Rather, this is a plea for rescuing the discipline of economics from the jaws of rocket scientists and mathematicians and handing it back to macro-economists, economic historians and political-economists. Social scientists need to reclaim the dismal science and spruce it up. There are after all other social sciences, such as psychology, that economics can turn to, to make it both more colourful and this-worldly, as George Akerlof, Robert Shiller and Richard Thaler have shown recently.

The writer is a civil servant. Views are personal.