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In Economics Departments, a Growing Will to Debate Fundamental Assumptions

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For many economists, questioning free-market orthodoxy is akin to expressing a belief in intelligent design at a Darwin convention: Those who doubt the naturally beneficial workings of the market are considered either deluded or crazy.

But in recent months, economists have engaged in an impassioned debate over the way their specialty is taught in universities around the country, and practiced in Washington, questioning the profession's most cherished ideas about not interfering in the economy.

"There is much too much ideology," said Alan S. Blinder, a professor at Princeton and a former vice chairman of the Federal Reserve Board. Economics, he added, is "often a triumph of theory over fact." Mr. Blinder helped kindle the discussion by publicly warning in speeches and articles this year that as many as 30 million to 40 million Americans could lose their jobs to lower-paid workers abroad. Just by raising doubts about the unmitigated benefits of free trade, he made headlines and had colleagues rubbing their eyes in astonishment.

"What I've learned is anyone who says anything even obliquely that sounds hostile to free trade is treated as an apostate," Mr. Blinder said.

And free trade is not the only sacred subject, Mr. Blinder and other like-minded economists say. Most efforts to intervene in the markets — like setting a minimum wage, instituting industrial policy or regulating prices — are viewed askance by mainstream economists, as are analyses that do not rely on mathematical modeling.

That attitude, the critics argue, has seriously harmed the discipline, suppressing original, creative thinking and distorting policy debates. "You lose your ticket as a certified economist if you don't say any kind of price regulation is bad and free trade is good," said David Card, an economist at the University of California, Berkeley, who has done groundbreaking research on the effect of the minimum wage.

Most economists are still devoted to what is known as the neoclassical model. Philip J. Reny, chairman of the economics department at the University of Chicago — the temple of free-market economics — said the theory and methods were "taught to avoid personal biases and conclusions that aren't found in the data." Like any science, he said, the field changes course slowly: "It requires evidence, and if evidence is there, it will accumulate and positions will move." He added, "I personally have a lot of faith in the discipline.”

But as issues like income inequality, free trade and protectionism have become part of the presidential candidates’ stump speeches, more thinkers have joined the debate. In addition to Mr. Blinder, other eminent economists like Lawrence H. Summers and the Nobel Prize-winner George A. Akerlof have pointed out what they see as the failings of laissez-faire economics.

“Economists can’t pretend that the consensus for free markets and free trade that existed 30 years ago is still here,” said Robert B. Reich, a public policy professor at Berkeley who served in President Bill Clinton’s cabinet.

Part of the reason is the growing income inequality and dislocation that global markets and a revolution in communications have helped create. Economists who question the free-market theories “want to speak to the reality of our time,” Mr. Reich said.

Meanwhile, critics have also pointed out the limits of standard cost-benefit accounting to measure items like the cost of inequality or damage to the ecosystem.

The degree to which economists wander from the mainstream varies widely.

Dani Rodrik, an economist at the Kennedy School of Government at Harvard, for instance, said, “I fall into the methods of the mainstream, but not the faith,” which he defines as the belief that more markets and free trade are always good and government regulation is always bad. Thinkers like these may come up with controversial ideas but are hardly marginalized. Other economists, however, go much further, and try to chip away at the field’s underlying theoretical foundations. So while Mr. Blinder, Mr. Card and Mr. Rodrik might be considered mere heretics, this second group has earned the label “heterodox.”

Although the meaning of the term is slippery, Frederic S. Lee, an economist at the University of Missouri-Kansas City who edits the Heterodox Economics Newsletter, says it refers to those who reject the neoclassical model, which Milton Friedman helped create, and which Ronald Reagan championed when he took over the White House.

Mr. Reny and others point out that the increasing popularity in the mainstream of behavioral economics, which looks at people’s complex psychological reactions to events, has offered a fuller picture of how consumers operate in the marketplace. Still, Mr. Lee criticizes neoclassical economics for maintaining that the market, if left alone, would ultimately find a happy balance. He also takes the discipline to task for relying on abstract theories and mathematical modeling instead of observation and sociological analysis.

In Mr. Lee’s view, for example, oil companies — not the natural workings of the market — determine gas prices, and the federal deficit is a meaningless term because the federal government prints money in the first place.

According to his estimates, 5 to 10 percent of America's 15,000 economists are heterodox, which includes an array of professors on the right and the left (post-Keynesians, Marxists, feminists and social economists).

Heterodox economists complain that they are almost completely shut out by their more influential neoclassical colleagues who dominate most American university departments and prestigious peer-reviewed journals that are essential to gaining tenure. There are a few university departments where these iconoclasts are welcome, like Amherst in Massachusetts, the New School in New York and Professor Lee's home, the University of Missouri-Kansas City, but these are exceptions.

The experience of Mr. Card's graduate students suggests how the process can work. Mr. Card is by no means on the fringe, but he said his research on the minimum wage in New Jersey "caused a huge amount of trouble." He and Alan B. Krueger, an economist at Princeton, found that contrary to what free-market theory predicts, employment actually rose after an increase in the minimum wage.

When Mr. Card's graduate students went on job interviews, he said other economists would ask questions like "What's wrong with your adviser? Has he started drinking?"

This is why Mr. Blinder said he advises graduate students "not to do what I do" when it comes to challenging the standard model.

Criticizing the approach that currently dominates the field, Mr. Blinder said economists must look more closely at the real world instead of modeling it in the lab. "Economics is insufficiently scientific," he said. "Mathematics may be useful, but mathematics is not scientific. It doesn't generate refutable hypotheses." In a recent issue of The Nation, Christopher Hayes spurred an energetic debate on the Web by suggesting that some precepts of heterodoxy were being incorporated into the mainstream — even if many heterodox economists were not.

Max B. Sawicky at the Economic Policy Institute in Washington, a nonprofit research organization that is a bulwark of heterodoxy, wrote in a discussion on tpmcafe.com that, "The duty of orthodoxy is clear: deny departmental positions and resources to inferior research programs and purify the top journals of incorrect thinking, all understood as maintaining high standards."

This is the point where Mr. Rodrik, who has written extensively on the downside of globalization, departs from both Mr. Sawicky and Mr. Blinder. Although he acknowledged that inflexible rules about how one makes an argument and what counts as evidence can create blind spots, but insisted that once those rules were accepted, there was tremendous openness inside the academy.

The problem is outside, where economists are expected to "regurgitate ideas" about the glories of the free market. Most mainstream economists think that voicing any skepticism or doubt provides "ammunition to the barbarians," he said, and allows narrow-minded people to "hijack any argument to suit their purpose."

Mr. Rodrik said he used to worry about this until he realized that “on any issue, there are barbarians on both sides,” so there was no point in shading an argument to “suit one set of barbarians over the other.”

“And I’ve slept a lot better since.”