

## When the going gets tough, economists go very quiet

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*They're happy to take the credit in the good times, but the disciples of this false science are hard to find as recession looms.*

So the Footsie has tumbled again. Forgive me for asking, but where are the economists? As the nation approaches recession, an entire profession seems to have vanished over the horizon, like conmen stuffed with cash, and thousands left destitute behind. They said recessions were over. They told politicians to leave things to them and all would be fine. Yet they failed to spot the sub-prime housing crash, and now look at the mess.

When I studied economics we were told we would be masters of the universe. Ours was not a dismal but a noble science. It had harnessed the verities of maths to those of human behaviour and would go on to conquer politics. Rampant recession would go the way of hyperinflation. Like leprosy and cholera, they were epidemics that modern medicine had rid from our shores.

It did not matter if the economists were welfare Keynesians such as Myrdal, Robinson and Galbraith or free-marketeers such as Marshall, Friedman and the Institute of Economic Affairs. All were "social scientists". They claimed to have cracked the DNA of economic exchange, to have turned the base metal of money into political gold.

We believed them. We believed the Keynesians until we slumped into stagflation. We believed light-regulation capitalists such as Margaret Thatcher and Gordon Brown, that they could convert boom-bust into an upward sloping plane of glory. We believed the Bank of England when it said that, in its hands, inflation was dead and prosperity eternal. Bliss was it in that dawn to be alive - and an economist.

If Britain were now in the grip of bubonic plague, there would be all hell to pay from some profession or other. An "influential" Commons committee would be summoning the chief medical officer and subjecting him to the third degree. Why no national rat strategy? Why no crash inoculation? Why so many planning delays on plague pits?

The espionage pundits were likewise castigated for wrongly leading the nation to war against Iraq, for giving dud professional assessments on fallacious intelligence. The architectural profession has taken the rap (very occasionally) for the grotesque failures of public housing in the 1970s. Climate scientists may yet be damned for the costly lunacy of new energy sources, such as wind turbines and biofuels.

Yet economics is a Teflon profession. A quarter of a century ago 364 practitioners wrote a letter denouncing the policies of the then Thatcher government as having "no basis in economic theory". They were wrong in fact and wrong in judgment. Thatcher's policies laid the groundwork for a strategic shift in the underpinning of British prosperity. There was no inquiry, no hearing, no peep of retraction or remorse.

Since then economists have flooded into government; there were roughly a thousand at the last count. What do they all do? Despite reports of demoralisation in the Treasury, that

department remains the home base for public sector management through financial aggregates. During the Blair/Brown era it has held government in thrall.

Economic managers have always claimed credit for the success of Brown's Treasury regime. They have espoused quantifiable outputs, targets and delivery indicators. They invented the celebrity consultant and the maxim that only what measures matters. Above all, the economics profession (and its house journal, the Economist) was ecstatic when Brown delegated monetary control to the Bank of England. This was supposed to isolate the economy from political pressure, subcontracting the regulation of interest rates and markets.

Today we are older and wiser. Controlling the agencies of credit has proved beyond the finest professional minds in the game. Where now are the effortless pundits of the Treasury and the Bank? Where now the gilded ones of Moody's and Standard & Poor's, credit raters to the mightiest in the land? They should have stuck to goose entrails.

Alan Greenspan, former chief of the US Federal Reserve Board and a Brown adviser, is unrepentant. He recently declared that "anticipating the next financial malfunction ... has not proved feasible". There is nothing so unseeing as a wronged economist. The Bank of England's apologies over Northern Rock have been protests that regulation is a mess and government indecisive.

When muck hits fan, economists always blame politicians. They would have some justice if they did not take credit when things go right. I was always uncomfortable at the overselling of economics as a science, when it is rather a branch of psychology, a study of the peculiarities of human nature. Its spurious objectivity, manifest in its ridiculous love affair with maths, induced a "Jupiter complex", a conviction that scientific certainty, applied with enough rigour to any problem, triumphs over all.

Economic management is and always will be about politics, about the clash of needs and demands resolved through the constitutional process. The delegation of interest rates to the Bank of England worked when it ran in parallel with politics, but not any more. Now that reflation seems urgent for recovery, the system is biased against common sense, yet no politician dare tell the Bank to cut rates and risk inflation.

The newest craze is "nudge" economics, from the Americans, Richard Thaler and Cass Sunstein. They put the subject firmly among the behavioural sciences - if not the arts. Human actions are too mysterious and unpredictable to be liable to quantification and modelling. They are responsive to what the academic Paul Ormerod called "butterfly economics". Nudge steers, but does not order or plan.

This requires knowledge of the working of markets, incentives, expectations and panics. But converting micro-economics into macro has always been a dangerous game. Much has been made of the success of Spain's dirigiste banking regulators in putting security before runaway profit. But this was a triumph of politics over economics. Greenspan may laconically remark that "we can never have a perfect model of risk", but we can have alertness to risk and we can have caution.

Economics has long traded on being a science when it is not. In this it is like war. For a third of a century since the 1976 IMF crisis it has enjoyed great influence over British policy.

Now it has met its Waterloo and a little humility would be in order. Once again economics must be rescued by that true master of all things, politics.

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