income, so that more of its growth of manufacturing could have been absorbed at home. I had also seriously underthought my ethical judgments about trade-offs between domestic and foreign workers. We certainly have a duty to aid those in distress, but we have additional obligations to our fellow citizens that we do not have to others.

I used to subscribe to the near consensus among economists that immigration to the US was a good thing, with great benefits to the migrants and little or no cost to domestic low-skilled workers. I no longer think so. Economists' beliefs are not unanimous on this but are shaped by econometric designs that may be credible but often rest on short-term outcomes. Longer-term analysis over the past century and a half tells a different story. Inequality was high when America was open, was much lower when the borders were closed, and rose again post Hart-Celler (the Immigration and Nationality Act of 1965) as the fraction of foreign born people rose back to its levels in the Gilded Age. It has also been plausibly argued that the Great Migration of millions of African Americans from the rural South to the factories in the North would not have happened if factory owners had been able to hire the European migrants they preferred.

Economists could benefit by greater engagement with the ideas of philosophers, historians, and sociologists, just as Adam Smith once did. The philosophers, historians, and sociologists would likely benefit too.

ILLUSTRATION: ANDRÉ LAAME/SEPIA

Jayati Ghosh

Economics needs greater humility, a better sense of history, and more diversity

JAYATI GHOSH *is a professor of economics at the University of Massachusetts, Amherst.*

The need for drastic change in the economics discipline has never been so urgent. Humanity faces existential crises, with planetary health and environmental challenges becoming major concerns. The global economy was already limping and fragile before the pandemic; the subsequent recovery has exposed deep and worsening inequalities not just in incomes and assets but in access to basic human needs. The resulting sociopolitical tensions and geopolitical conflicts are creating societies that may soon be dysfunctional to the point of being unlivable. All this requires transformative economic strategies. Yet the discipline's mainstream persists in doing business as usual, as if tinkering at the margins with minor changes could have any meaningful impact.

There is a long-standing problem. Much of what is presented as received economic wisdom about how economies work and the implications of policies is at best misleading and at worst simply wrong. For decades now, a significant and powerful lobby within the discipline has peddled half-truths and even falsehoods on many critical issues—for example, how financial markets work and whether they can be "efficient" without regulation; the macroeconomic and distributive implications of fiscal policies; the impact of labor market and wage deregulation

on employment and unemployment; how patterns of international trade and investment affect livelihoods and the possibility of economic diversification; how private investment responds to policy incentives such as tax breaks and subsidies and to fiscal deficits; how multinational investment and global value chains affect producers and consumers; the ecological damage wrought by patterns of production and consumption; whether tighter intellectual property rights are really necessary to promote invention and innovation; and so on.

Why does this happen? The original sin could be the exclusion of the concept of power from the discourse, which effectively reinforces existing power structures and imbalances. Underlying conditions are swept aside or covered up, such as the greater power of capital compared with workers; unsustainable exploitation of nature; differential treatment of workers through social labor market segmentation; the private abuse of market power and rent-seeking behavior; the use of political power to push private economic interests within and between nations; and the distributive impacts of fiscal and monetary policies. The deep and continuing concerns with GDP as a measure of progress are ignored; despite its many conceptual and methodological flaws, it remains the basic indicator, just because it's there.

Inconvenient truths

There is a related tendency to downplay the crucial significance of assumptions in deriving analytical results and in presenting those results in policy discussions. Most mainstream theoretical economists will argue that they have moved far away from early neoclassical assumptions such as perfect competition, constant returns to scale, and full employment, which bear no relation to actual economic functioning anywhere. But these assumptions still persist in the models that explicitly or implicitly undergird many policy prescriptions (including on trade and industrial policies or "poverty reduction" strategies), particularly for the developing world.

The power structures *within* the profession reinforce the mainstream in different ways, including through the tyranny of so-called top journals and academic and professional employment. Such pressures and incentives divert many of the brightest minds from a genuine study of the economy (to try to understand its workings and the implications for people) to what can only be called "trivial pursuits." Too many top academic journals publish esoteric contributions that add value only by relaxing one small assumption in a model or using a slightly different econometric test. Elements that are harder to model or generate inconvenient truths are simply excluded, even if they would contribute to a better understanding of economic reality. Fundamental constraints or outcomes are presented as "externalities" rather than as conditions to be addressed. Economists who talk mainly to each other, then simply proselytize their findings to policymakers, are rarely forced to question this approach.

As a result, economic forces that are necessarily complex—muddied with the impact of many different variables—and reflect the effects of history, society, and politics are not studied in light of this complexity. Instead, they are squeezed into mathematically tractable models, even if this removes any resemblance to economic reality. To be fair, some very successful mainstream economists have railed against this tendency—but with little effect thus far on the gatekeepers of the profession.

"The enforcement of strict power hierarchies within the discipline has suppressed the emergence and spread of alternative theories, explanations, and analysis."

Hierarchy and discrimination

The enforcement of strict power hierarchies *within* the discipline has suppressed the emergence and spread of alternative theories, explanations, and analysis. These combine with the other forms of discrimination (by gender, race/ethnicity, location) to exclude or marginalize alternative perspectives. The impact of location is huge: the mainstream discipline is completely dominated by the North

Atlantic—specifically the US and Europe—in terms of prestige, influence, and the ability to determine the content and direction of the discipline. The enormous knowledge, insights, and contributions to economic analysis that are made by economists located in global majority countries are largely ignored, because of the implicit assumption that "real" knowledge originates in the North and is disseminated outward.

Arrogance toward other disciplines is a major drawback, expressed for example by the lack of a strong sense of history, which should permeate all current social and economic analysis. Recently it has become fashionable for economists to dabble in psychology, with the rise of behavioral economics and "nudges" to induce certain behavior. But this too is often presented ahistorically, without recognizing varying social and political contexts. For example, the worm's eye randomized tests that have become so popular in development economics are associated with a shift away from studying evolutionary processes and macroeconomic tendencies, to focus on microeconomic proclivities that effectively erase the background and context that shape economic behavior and responses. The underlying and deeply problematic underpinning of methodological individualism persists, largely because few contemporary economists attempt a philosophical assessment of their own approach and work.

These flaws have greatly impoverished economics and unsurprisingly reduced its credibility and legitimacy among the wider public. The mainstream discipline is sorely in need of greater humility, a better sense of history and recognition of unequal power, and active encouragement of diversity. Clearly, much has to change if economics is really to become relevant and useful enough to confront the major challenges of our times.

Diane Coyle

Fundamental economic changes require a departure from simplistic economics

The economy of the 2020s is a world away from the economy of the mid-20th century, when much of the standard toolkit economists still use was first developed.

The formalization of economics in the 1950s and '60s occurred in the context of a manufacturing sector that drove growth and employment, producing standardized goods, and trade was dominated by finished goods rather than components. Keynesian economics shaped the categories of statistics gathered in the System of National Accounts and in the linear input-output models and macroeconomic models newly built by econometricians.

Many of those in prominent policy roles today learned their economics from textbooks and courses based on that relatively orderly economy. In particular, the framework for evaluating policies relied on the basic theorems of "welfare economics," the branch of the discipline that asks whether economic outcomes are desirable or not. The theory states that market outcomes are the best that can be attained—if certain key assumptions hold.

Needless to say, they rarely do. For example, for the theory to be valid, people need to have fixed preferences—including for things that do not yet exist. All goods need to be "rival," or able to be consumed only by one person, yet many are nonrival—from the atmosphere to public roads to digital movies. There must be no externalities such as pollution or CO_2 emissions. No firms can have market power—there must be perfect competition—and there must be constant returns to scale as production levels increase. What's more, in the 1970s Nobel laureate Kenneth Arrow proved his "impossibility theorem," which shows that it is never (on very reasonable assumptions) possible to determine the welfare of society as a whole by adding up the welfare of individuals.

DIANE COYLE *is the Bennett Professor of Public Policy at the University of Cambridge.*

Time for change

So for at least the past 40–50 years, the absence of solidly grounded welfare economics has been an uncomfortable vacuum in economics. Policymakers must choose what they think will be the best course of action for their society, using