Book Review of:

Robert Skidelsky, *What's Wrong with Economics: A Primer for the Perplexed*, New Haven and London: Yale University Press, 2020, pp. xvii+248, $25, ISBN 9780300249873.

Robert Skidelsky is well-known among academic economists for his three- volume biography of John Maynard Keynes which received numerous prizes, including the Lionel Gelber Prize for International Relations and the Council on Foreign Relations Prize for International Relations. Skidelsky is Emeritus Professor of Political Economy at the University of Warwick and a Fellow of the British Academy. His latest book is mostly a passionate but careful critique of mainstream economics. As Skidelsky mentions in the Preface, the main target of his attack is "'neoclassical' or 'marginalist' or 'mainstream' economics because it has been so dominant in the textbooks and gives a distinctive flavor to the way all economics is done today." (p.x) According to the author, the methodological foundations of modern mainstream economics are the chief causes of its numerous shortcomings. The book does not confine itself to the criticism of mainstream economics but it proposes an approach to economics which includes philosophy, history, sociology, and politics.

The work is divided into fourteen highly readable chapters. The first five chapters focus on the methodological foundations of economics in a broad sense. Chapter 1 appropriately entitled "*Why Methodology*", sets the methodological framework. The starting point of the critique of mainstream economics is its failure to predict and explain the financial crisis of 2007-2008. Skidelsky convincingly argues that the roots of failure lie within the way economics is done or with its methodology. Consequently, the author expounds on the physics methodological ideal which has dominated orthodoxy at least since the marginalist revolution. In the same vein, Skidelsky attacks the model of economic rationality -Homo Economicus-, the utility maximizing construct which facilitates the application of formal mathematical methods. The following chapter entitled *The Basics: Wants and Nee*ds, is principally a more elaborate criticism of orthodox rational choice theory. Skidelsky relies on the Robbins' definition of economics in order to explain the conceptual shift from *Political Economy* of the classics to *Economics*. Lionel Robbins' famous definition essentially expels morality from the study of economic phenomena. There is a detailed account of the distinction between the term *wants* used by mainstream economics and the term *needs*, and of its serious implications for the nature of scarcity and choice. He then shows how the concepts of scarcity and choice are shaped and connected to the definition. Chapter 3 concentrates on *Economic Growth* and it is primarily an example of the two competing approaches on the subject of economic development and growth. There is a brief survey of growth theorists since Adam Smith and then a comparison of two main schools of thought in economic development, viewed again from a methodological perspective.

Chapters four and five on *Equilibrium* and *Models and Laws* respectively, engage in a methodological critique of core concepts found in mainstream economics. Starting from the notion of Walrasian equilibrium, Skidelsky demonstrates how the use of mathematics and physics methods is combined with the fundamental assumption of self-interest behavior. He then proceeds to examine the use of assumptions in economic modelling and the role of prediction and verification. There is also a brief discussion of their role in econometric research. The main conclusion is: "Because economics is not a science, it needs other fields of study to study reality" (p.78). This sentence serves as a bridge to discuss the relationship of economics to the neighboring disciplines of psychology and sociology. After analyzing the model of Homo Economicus, Chapter 6 on *Economic Psychology*, brings in the key criticisms by appealing to the findings of behavioral economics (stemming mainly from the work of Daniel Kahneman and Amos Tversky). Chapter 7 (*Economics and Sociology*), presents the sociological explanations of human behavior. The author argues that if economics abandons its reductionist approach the gulf between economic and social explanations can be bridged.

The following chapter 8 provides an account of Institutional economics as an example of non-mainstream economic discourse. Skidelsky focuses on what is called *old institutional economics* (J. Commons, W. Mitchel and especially, T. Veblen), rather on the *new institutional economics* of R. Coase which he calls *Neoclassical Institutionalism* (p.112). He admits however, that institutional economics, whether old or new, is a great improvement on the Robinson Crusoe approach of the pure neoclassical school (p.117). Chapter 9 deals with a much-neglected issue of *Economics and Power*. The author rightly observes that economics has not found a way of modelling power (Marxian economics is the only counter example in economic thought). This issue is akin to the old but still highly relevant link between ideology and economic analysis. Chapter 10 entitled *Why study the History of Economic Thought,* is a remarkable defense of this relatively neglected field of economics. After presenting some elements of current methodological debates (Kuhnian paradigms and Lakatosian research programmes), Skidelsky identifies the connections between contemporary heterodoxy and the study of great thinkers of the past. Chapter 11 on *Economic History*, supports the authors' conclusion that history teaches that economics is path dependent.

The old question of the relation between ethics and economics is the subject of chapter 12. The discussion is related to the one of chapter 9, and I think that the two chapters should be read together. This chapter though, provides interesting and detailed suggestions of how can ethics help economics. Chapter 13 (*Retreat from Omniscience*), focuses on the epistemology and ontology of economics. In this context, Skidelsky emphasizes the distinction between risk and uncertainty initially conceived by Frank Knight and developed by Keynes in his *Treatise of Probability*. He explores its consequences for the mainstream conception of economic agents in conjunction with his call for the integration of ethics in economics. Chapter 14 on the *Future of Economics* concludes and provides suggestions. Skidelsky embraces Keynes's view that unemployment is the central problem of modern economies and its treatment is vitally linked to the erroneous belief of self-regulating markets. Given his strong criticism of the orthodox methodology, Skidelsky argues for a return to the ideal set out by John Maynard Keynes that the economist must be a mathematician, historian, statesman, and philosopher in equal measure.

I think that the main merit of the book is that it brings into attention the role of economic methodology for the understanding of current economic theory and economic policy prescriptions. I also agree with the author that the study of the history of economic thought serves the same purpose. Skidelsky's thoughtful analysis of the relationship of economics to ethics, ideology, and political power is conducted under a methodological perspective. The same holds true for his discussion of the relationship of economics to psychology and sociology. The other merit of the book is that it synthesizes and presents clearly many critiques of mainstream economics originating from different non-orthodox schools of economic thought. In this sense, the book can also be seen as a concise survey of the main criticisms towards mainstream economics. I think that many academic readers would find this aspect of the work very useful and probably a source of inspiration for future research ideas.

In this framework, I suppose that the book could have covered some additional topics which would have strengthened its main theses. For instance, Skidelsky could have used mainstream labor market analysis as a case study to enrich his arguments concerning the serious methodological inadequacies of mainstream economic theory. This could be connected to dominant policy suggestions regarding the central problem of unemployment. Furthermore, one could also think of another missing element which relates to Skidelsky's accusation that mainstream models are divorced from reality and are useless in predicting crises. I believe that a brief discussion of Hyman Minsky's theory of financial crises would have been very useful in demonstrating a credible alternative to the orthodox approach (Minsky, 1986).

As one would expect in a book surveying such a vast area, there are few points which might raise objections especially among specialists. For example, Skidelsky does not emphasize enough the crucial differences between old and new institutional economics. Old institutional economics, and especially the approach of Thorstein Veblen and more recently of J. K. Galbraith, is very far from the so-called new institutional economics (Hodgson, 2003). As Skidelsky correctly points out, Veblen attacked the model of marginalist selfish utility maximization. However, many members of the new institutional school accept the standard model of economic rationality and solely explain organizations through market mechanisms and concepts drawn from neoclassical economics (Simon, 1991). It could be maintained that a similar argument can be made with reference to "old" and "new" behavioral economics. The old behavioral economics, mainly of Herbert Simon and George Katona, were much more critical of the neoclassical assumption of utility maximization than the new behavioral economics (Sent, 2004). New behavioral economics attempt to identify in what ways people's choices diverge from the predictions of rational choice theory (Thaler, 1985).

Skidelsky's book is a much-needed contribution to the ongoing debate of the shortcomings of mainstream economics and its economic policy suggestions. A debate which gained momentum and attracted wider attention after the financial crisis of 2007-2008. Most issues that are discussed in the book have long been in the agenda of academic economists with a critical attitude towards mainstream economic theory and policy. However, Scitovsky does an excellent job in summarizing and presenting them to a much wider readership. Furthermore, the book does not confine itself only to this function but offers a highly plausible alternative approach based mainly on the vision of John Maynard Keynes. For all these reasons, I think that the book should be essential reading not only for all students of economics but for everyone who is interested in a deeper understanding of major contemporary economic and political issues.

References

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