

Tragedy of economics and economists

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A recent book by George F. DeMartino, *The Tragic Science: How Economists Cause Harm*, starts with a quote: “The economics profession... is the priesthood of a powerful secular religion... Beneath the surface of their formal economic theorizing, economists are engaged in the act of delivering religious messages. Correctly understood, these messages are seen to be promises of the true path to salvation in this world-to a new heaven on earth”-Robert Nelson (2001, XX)

Nelson’s observation is correct here.

Virtuous economists, including those in the policy area, often project their work to be ‘God’s work-aiming for the social, economic betterment of all’. Still, the ‘harm’ caused because of their practice- the economists’ vocation in applied policy, or through a given advice to elected governments, remains both, less emphasized, and better understood, unfortunately, within economics too.

DeMartino’s book aims to precisely do that.

It is not an indictment of economics, but of economists who seek to practice its ideas, principles, and theories- and the harm they cause to the very society they intend to do good for. In recent instances of economic policymaking in India, numerous illustrations come to mind of how different experiments with policy innovation and intervention, resulted in harm to millions, all in the warp of ‘good intention’.

Demonetization, an ad-hoc implementation of a new tax (GST), Export Bans (on Wheat), Poor Economic Policy Design on Tackling Rising Inflation, Fiscal Choices Made in Budget-After-Budget Aiming to Enhance Capital Expenditure at the Cost of Social-Welfare Expenditure etc. are all a few examples of inconsequential policy making India's own growth-developmental story a sad state of affairs.

Economists, who have either advised or justified government actions, often do so by resolving the 'any harm was done' moral dilemma by adopting an approach that DeMartino calls economic "moral geometry" in his book. Moral geometry represses "the complexity of harm and insulates the profession morally from the harms people suffer because of the policies it advocates".

More often, economists use new classical methods like cost-benefit analysis to attempt to resolve deep moral questions—such as what kinds of 'harm' are appropriate to impose on some members of society for the well-being of others—by way of simple math problems.

The use of sophisticated models with abstract assumptions helps provide 'causal evidence' for justifying a given policy decision (say, increasing tariffs to incentivize domestic production for a given good/service or to protect domestic manufacturers), even though the result (over-the-longer-term) may see more damage in-cause than good (see how India's over-protective textile industry suffered at the hands of deep-protectionism for decades post-independence).

The Khichdi of Weaponized Economic 'Debate'

More recently, I made a similar argument in context to explaining issues with the 'debate on poverty reduction and estimates' in India. One set of economists (Panagriya-Bhalla et al) argued one set of facts that poverty rose only "modestly" and has rather declined "persistently" over the last decade. Another group (Dreze-Basole-Mehrotra et al.) contradicted that claim by saying the "methodology" used in saying poverty has reduced is indeed 'questionable'. Given the poor quality of government data, as discussed here, such arguments may yield less clarity, but cause more confusion.

The irreparable harm caused by such weaponized, polarization of policy discourse (say, in debates on poverty estimation or the perceived negative impact of higher wages on un/underemployment), where economists on one side fight another- not with the intention of knowing, but rather proving on 'who is right' does little good for the 'pluralist' core of disciplines like economics, and its own practice. Consequently, this further creates distrust in the ability of the readers/audience to 'trust' economists and intellectuals in what they say.

In Great India Poverty Debate, 'the experienced reality' shows a different tale for anyone to observe: how an increasing rural and urban poor population still face acute difficulties in being able to access basic amenities, food, and nutrition, to make ends meet even now. As Wittgenstein would say, the only 'fact' that matters is of 'lived experience'- not of a 'mathematical axiom'.

‘Economist-Induced’ Harm

Conscious action, or inaction made in defence of a policy or economic argument also finds mention in DeMartino’s explanation of what he calls: ‘economist-induced harm’. Relate this in context to Raghuram Rajan’s recent critique of the PLI (Performance Linked Incentive) Scheme in India, aimed at boosting domestic manufacturing production, investment and jobs in India. Rajan, argues in his column, that the boom in India’s mobile phone exports might be a sign of concern as the growth is happening on the back of assembly rather than genuine manufacturing within the country.

“One key deficiency of the scheme is that the subsidy is paid only for finishing the phone in India, not on how much value is added by manufacturing in India. This matters! It turns out that very little apart from the assembly is done in India, though manufacturers claim they intend to do more in future. So, India still imports much of what goes into the mobile phone, and when we correct for that, it is very hard to maintain that net exports have gone up,” argues Rajan.

What this would indicate is a fact that much of the PLI policy, which occupies a major chunk of the government’s fiscal spending plan (via subsidies) while reducing social welfare expenditure, all in the intention to push for ‘Make in India’ is, in fact, yielding more ‘imports’, adding to the nation’s current account deficit, while failing to cause any significant domestic value-addition in India’s manufacturing growth/production or jobs.

It is pertinent to realize how ignorance-based economics builds upon the understanding that there is so much we can’t know in economics and so little we can control. It nevertheless seeks to apply economic expertise responsibly, in concert with those whom economists seek to serve. Recognizing irreparable ignorance with clear eyes, according to DeMartino, opens the door to promising new thinking about policy formation that can achieve just what it is economists hope to achieve, the promotion of social betterment. Else, we are in a free-fall, anyway!

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