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Psychological Suggestion to P Krugman

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Dedicated to Marie-Louise Nykamp

Abstract

Recently, P Krugman has suggested that psychology should be included in the theory of economics in view of its critical role played in the behaviour of the large masses of people whose day to day participation impacts so heavily upon economic affairs. Here it is argued that such an inclusion of psychology as an important component of economic theory should further be extended to the psychology of theoretical economists as well. Indeed, the severe division of theoretical economists along various preconceived or a priori lines is still affecting with a massive negative effect our national and global economies. And while democracy may be a legitimate approach in politics, since no one can seriously claim that politics is a science, on the contrary, and precisely to the extent that economics is claimed by some to have by now reached the level of science, such arbitrary sharp divisions, mostly politically motivated, which we still have in the theory of economics may indeed require the urgent and significant consideration of the psychology of the respective theoretical economists.

Open Letter to P Krugman

It happened that, reading the recent arxiv:1012.4446 paper “Fundamental

and Real-World Challenges in Economics” of Helbing and Baliani, I came across your September 2, 2009 item in the New York Times.

Most certainly, I am not one of your critics.

I find it much on the level of football-hooliganism to take sides, let alone, to feel belonging to any side, be it in economics, politics, and so on. Indeed, since I was a child, I was many times explained that such identifications are mostly emotional, summary, primitive and a priori, and as such, can hardly at all be supported by wise enough, let alone, scientific arguments. And if the term football-hooliganism may happen to seem too strong, let us recall that less than four centuries earlier Galileo nearly lost his life by claiming in front of highly educated and sophisticated Vatican theologians that Planet Earth moves. And less than two centuries ago the Ox-bridge establishment in England was still shocked by Geology according to which Planet Earth is far older than the six or so millennia calculated from the Bible.

Also, less than two decades ago a large part of the world was still run according to the idea that private property is theft ...

And, please, do not call idiots or lunatics all those people - many of them highly intelligent and learned - who fervently kept supporting the respective mistaken systems of ideas ...

No, such errors are but a psychological issue, one in which - just like animals and our small children - we take our mere sensations of truth for nothing less than truth itself ...

Ontology does, indeed, prove to be a considerably deep, and therefore, difficult issue to so many of us ...

And then, approaching it in prejudiced manner, and following that up by quick and superficial deductions is but an age old trap for us humans, and trap however, we should fully and permanently be aware of.

Well, do you by any chance have a better short formulation for that systematic human failure than football-hooliganism ?

Please, therefore, try to see the following in view of the above.

What you describe in your mentioned 2009 item I find mostly correct. However, I find as well that it is not going deep enough, namely, in addressing the regrettable silliness of the general academic situation of which that in the theory of economics is but a small part.

But to be short.

In the Wikipedia item on you, it is mentioned that your interest in economics began with Isaac Asimov's Foundation novels, in which the social scientists of the future use "psychohistory" to attempt to save civilization, and since "psychohistory" in Asimov's sense of the word does not exist, you turned to economics, which you considered the next best thing. Also, towards the end of your 2009 item, you mention that *behavioral finance* should be developed.

Yes indeed, psychology is absolutely fundamental in economics. Just as much as in politics, or for that matter, romance, and all such emotionally hot human ventures.

Our *cognitive being* as humans is poorly integrated with our *affective being*, and the latter so often is the real boss ...

This is, in short, why psychology is so important if one tries to deal with hot human issues and do so in more customary ways ...

Of course, there are as well far more subtle ways of dealing with such issues. However, let us keep here to the customary ones only ...

Now, in economics, like in politics, the psychology of the masses is in fact only one side of the issue. Indeed, the psychology of those who do economic theory is no less important, and you seem to miss this point utterly in your 2009 item.

And then, please, why not also, and first of all, if not in fact, above all, consider the psychology of those who are involved in economics as a theory ?

Yes, why not try to step back somewhat, and look at all that nonsense recalling football hooliganism of the so called "salt water" versus "fresh water" versus "liberal" versus "conservative" versus versus versus ...

And do so from the point of view of psychology. That very psychol-

ogy which, according to Wikipedia, did in the first place get you into economics some decades earlier ...

The psychology of the masses will after all be turned into important components of economics theory. And the psychology of those who will do so is extremely important since - as a long and painful record shows it - it can so easily introduce grave distortions ...

Please remember : football-hooliganism makes those who practice it feel so immensely good, yet it is still nothing more than football-hooliganism ...

References

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