

Letter

Lack of prosperity adds weight to idea of economics' failure

From Konstantinos Gravas, Athens, Greece



Central banks have evolved as powerful institutions within the economic system © AFP
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Delivering the Adam Smith Lecture 2006, Sir Mervyn King described money as a social institution. As its value depends on trust, much of financial history has taught us to create institutions in which people can have trust ([“Has economics failed?”](#), FT.com, May 1).

Since central banks have evolved today as powerful institutions within the economic system, in the aftermath of the Great Recession, there has been a significant revolution going on in the field of monetary economics. The development that was both a manifestation and cause of this revolution was the phenomenal growth of their balance sheets.

Although the unprecedented accumulation of assets did not alter the old theory paradigm — in the words of Milton Friedman (1984), “activist monetary policy will continue to be the bread and butter of monetary economics” — many riddles remain to be solved.

In his introduction to *The Essential Keynes*, Robert Skidelsky argues that John Maynard Keynes rests his theoretical structure on the existence of radical uncertainty.

As economics constructed models that presupposed perfect information, an economy built on a pretence to knowledge was liable to sudden collapses when reality broke through; confidence, once deceived, could not readily be restored.

So, has economics failed? If all participants answer yes, they might be wrong under the concept of “fallibility” in George Soros’s “General Theory of Reflexivity”. If they

answer no, then — according to the framework of “reflexivity” — declaring that economics has not failed tends to make for good economics. But good economics means growth and prosperity; and yet, people have suffered from recent crises.

The answer is “maybe”.

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