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Bernanke to Economists: More Philosophy, Please

By Brendan Greeley August 06, 2012

“Textbooks describe economics as the study of the allocation of scarce resources,” said Ben Bernanke on Monday morning. “That definition may be the ‘what,’ but it certainly is not the ‘why.’” He was speaking to the International Association for Research in Income and Wealth, and “why” is not a question that Federal Reserve chairmen tend to ask in front of any audience. The Fed is charged with two precise, measurable tasks: Keep unemployment low and prices stable. These are indexes, numbers on a scale, and if a Fed chairman can keep them where they should be, he can be satisfied that he has done his job. In that sense, Bernanke is playing the world’s most complex video game.

But in Monday’s speech, Bernanke wandered outside the game. He asked why he should keep prices stable and unemployment down. Those numbers mean things to humans. They mean satisfaction, the ability to live within means. They mean happiness. These kinds of words make economists uncomfortable. Happiness resists measurement. When things cannot be measured, they cannot be modeled, and if economists aren’t using models, then they aren’t scientists.

On Monday, Ben Bernanke wasn’t talking like a scientist. He was talking like a philosopher. “The ultimate purpose of economics, of course, is to understand and promote the enhancement of well-being,” he said. To a roomful of economists, he suggested that the measurements they were using, like gross domestic product and personal consumption expenditures, were inadequate to that understanding. “Aggregate statistics can sometimes mask important information,” he said. Translation: People are unhappy, and we don’t know exactly why. “We should see better and more direct measurements of economic well being,” he said, “the ultimate objective of our policy decision.” Translation: I know it’s hard to measure happiness. Start doing it, anyway.

“Economics, as a discipline, tends to change its perspective during a crisis,” says Jerry Evensky. He teaches economic history at Syracuse University’s Maxwell School of Citizenship & Public Affairs. The insurrections of 1848 gave us Karl Marx and John Stuart Mill, who agreed at the very least that capitalism was not working. They had different prescriptions for fixing it. The Great Depression helped form and then popularize the ideas of John Maynard Keynes, who understood that economic frustration was a political problem. The recession and recovery of the last five years, says Evensky, hasn’t produced a Mill or a Keynes (or a Marx). As a discipline, economics is not doing a good job of examining its core assumptions. Evensky characterizes academic economists’ view of the their profession as “We’ve had a little setback, but we’re going to get back on track.” With “a delicate hand,” he says, Bernanke was nudging economists to ask tougher questions of themselves.

The crisis has not moved top economics departments in the United States to change course offerings for their PhDs. But Bernanke and Evensky are not alone. Last year, Robert Shiller, a Yale economist so respected that he has his own index, wrote a paper titled "Economists as Worldly Philosophers." Adam Smith, Karl Marx, John Stuart Mill, John Maynard Keynes: These men were all "concerned with the broader intellectual current of their day," he wrote. They were philosophers. Shiller calls economics a "moral science," one that should be "driven by the broad moral purpose of improving human welfare." Shiller, like Bernanke, is saying that it's not enough to move numbers around. You have to make people happy.

In his speech on Monday, Bernanke pointed to the "Gross National Happiness" index of the Kingdom of Bhutan and to the OECD's "Better Life Index," which compares quality-of-life indicators across countries. And he suggests that economists track measures of job security, confidence about future employment prospects, degree of upward mobility, and changes in the distribution of income. To Jerry Evensky, this sounds a lot like Adam Smith, who considered himself a moral philosopher. "Smith thought the metric of society is how the least of the working class is doing," says Evensky, "the metric of a good life is not material well being, but secure tranquility."

Two years ago, Bernanke gave a commencement address at the University of South Carolina. He apologized for talking about economics to a group of celebrating 22-year-olds, and then instead talked about happiness. Happiness is right there in the Declaration of Independence, he said, so we should study it. He went into great detail on the "Easterlin Paradox," the finding of economistRichard Easterlin that above a certain income level, more money doesn't buy much more happiness. "Or, as your parents always said, 'Money doesn't buy happiness,'" the chairman said, adding, "Well, an economist might reply, 'At least not by itself.'" To the profession of economics, Bernanke is now saying: Money doesn't buy happiness; figure out what does.

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