International Journal of Multidisciplinary Research and Growth Evaluation

International Journal of Multidisciplinary Research and Growth Evaluation
ISSN: 2582-7138
Received: 22-10-2020; Accepted: 25-11-2020
www.allmultidisciplinaryjournal.com
Volume 1; Issue 5; November-December 2020; Page No. 26-28

Role of economist and indigenous institutions

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Abstract
This paper provides a reconsideration of the role of the economist in economic growth. The paper argued that economists and policy makers alike overlook the role indigenous institutions play in economic development. The paper argues that informal institutions, which underlie formal institutions, cannot be imposed from above but must develop from the ground up. Imposing formal institutions that do not align with the underlying institutions will not be effective. The paper's reconsideration of the role of the economist in economic growth, concluded that there is a significant role for the economist to play, that of understanding the interplay of both formal and informal institutions and their impact on economic activity. In addition, the paper posits that economist can serve a critical function as an educator and advisor to both the general public and policy makers. In this capacity, the economist plays an important role in shaping public opinion and ideology which is critical in achieving long-lasting institutional and social change.

Keywords: Conventional Role of Economist, Contemporary Role of Economist, Institutions

1. Introduction

Growth of economies has been at the centre of economics, with monolithic literature chronicling the way states can grow their economies. On one hand, Adam Smith, writing in 1776, attempted to determine the factors that led to the wealth of nations. He concluded that low taxes, peace and a workable system of justice would lead to economic growth. On the other hand, Robert Lucas, discussing the economic development of India more than two centuries wrote:

> …The consequences for human welfare involved in questions like these are simply staggering…once one starts to think about them, it is hard to think about anything else… (Lucas, 1988) [4].

This assertion, is indicative to the importance attached to economic growth. In fact, the economic growth formation has changed greatly since the time of Smith (1776) [7]. As this field has evolved, one critical question has been overlooked, '…where is the economist in all this?'

In other words, what role is the economist to play in understanding and contributing to economic growth? This question is rarely, if ever, considered. Is it the job of the economist to research and discuss historical successes and failures? Must the economist go further and make policy recommendations based on the results? If so, what does economic science offer economist in terms of fulfilling his/her duties? This paper would lead one to think that not only is the economist in a position to analyse past occurrences, but also that he/she has access to an economic oracle allowing him to predict future developments and provide invaluable advice to reach these goals.

This contention is evident when one looks at Joseph Stiglitz's (2002) [8] best-selling book, '…Globalization and its Discontents'. Stiglitz's book of 2002 is a good representation of the current mindset in much of the development literature and has been popular among both academics and non-academic alike. Stiglitz's book of 2002 also provides key insights into how those in the development establishment, view the role of the economist given that he was both chairman of the Council of Economic Advisors and Chief Economist at the World Bank. After discussing the failures of various attempts at generating economic growth in developing countries, Stiglitz (2002) [8] concludes with recommendations of how to correct these failures. Included in his list of recommendations are: the creation of international public institutions, a change in the governance and mind set of the WTO and IMF, acceptance of the dangers of capital markets, bankruptcy reforms and standstills, less reliance on bailouts, improved banking regulations, improved risk management, improved safety nets, improved responses to crises, and refining conditionality of assistance and debt forgiveness. Underlying these recommendations is the assumption that policymakers and economists can design effective policies and interventions to generate the desired outcomes.

It is, the failure, by both Stiglitz (2002) [8] and the development community in general, to consider the role of the economist that serves as the foundation of this paper. It is, this paper's contention that the true role of the economist in economic growth has been obscured. The development community has misused the science of economics as the basis for piecemeal planning.

2. Conventional role of economist

The science of economics provides us with true laws of the world. The role of the economic theorist is, to identify and elaborate on these laws and to use them to explain complex economic facts. When attempting to predict future events, the economist is no longer a theorist or historian, but rather assumes the role of forecaster. This forecasting can take two forms, qualitative or quantitative. A qualitative forecast relies on economic laws to explain relationships, while a quantitative forecast places a numerical value on some future occurrence. It is, often forgotten that economic laws, by their very nature, are qualitative rather than quantitative.

When the forecaster engages in quantitative predictions, he has gone beyond the knowledge that the science of economics is able to provide. To illustrate this, the laws provided by the science of economics tell us that when price increases, quantity demanded decreases (a qualitative forecast). This law fails to tell us that an RTGSX increase in price leads to a Y percent decrease in demand, indicative to quantitative forecast. In fact, this is a critical realization because all of the development organizations such as, the World Bank, IMF, WTO, rely heavily on quantitative forecasts for their various programs, as well as their analysis of economic growth in general. In short, the economist's comparative advantage is not in forecasting but in understanding economic laws and the specific situations where they are applicable.

The active role of the development agencies provides insight into why the conventional role of the economist persists. This persistence is grounded in a fundamental misunderstanding of the nature of economics and, hence, the role of the economist.

In reaching for heaven on earth, Nelson (1991) [5] argues that modern economics has taken on a theological significance that was denied other social sciences. It is, Nelson's (1991) [5] contention that since economic progress was seen as the solution to social ills, the discipline of economics was given a special status as the harbinger of economic progress. Economists have been elevated to the level of 'ecclesiastics' who utilize economic science to transform the liberal state to the administrative state with the goal of eradicating social ills. This special status given to economists includes, privileged positions in advising policymakers as to the social and economic programs that should be undertaken. What then does this mean for the economist, specifically in the dominion of economic growth? The following dichotomy serves to explain the role of the economist and highlight the point made by Nelson (1991) [5]. In the first instance, as Rothbard writes [6]:

> …The pretensions of econometricians and other 'model-builders' that they can precisely forecast the economy will always flounder on the simple but devastating query…(that) if you can forecast so well, why are you not doing so on the stock market, where accurate forecasting reaps such rich rewards?...(that) it is, beside the point to dismiss such a query…by calling it 'anti-intellectual', for this is precisely the acid test of the would-be economic oracle (Rothbard, 1970:257) [6].

The statement by Rothbard (1970) [6] was not said to discount the role of model building and econometrics as an economic tool for use in analysing historical events. Rather, it is, only to highlight the point that using such tools to forecast future occurrences is outside the realm of the science of economics. For example, IMF's use of forecasts and projections, when analysing the pure market in which the government plays a passive role, the economist is left only to understand and explain the workings of the economy.

From this assertion, it follows, therefore, that the economist is a 'student' of the economy. The economist is able to explain the consequential chain for some occurrence, if X occurs, then Y, then Z, etc. In the context of development economics, the economist as a 'student' is primarily concerned with understanding how the key indicators of economy relate to each other. However, the role of the economist has changed drastically where economist has to understand indigenous institutions of a particular country, how they are evolving to meet certain social needs, and how they function within the unique cultural context of that particular country in the quest to coordinate economic activity.

3. Contemporary role of economist

Given our framework traditional role of economists, what does this mean for the role of the economist in economic growth? This paper posits that given the nature of the science of economics, there is clearly a role for the economist both in situations where he/she must explain the causal chain, the pure market, and where he/she is called upon to analyse actions that influence market activity, as well as the results of policy.

The economist is first and foremost a student of the economic order. He/she not only needs to understand economic theory, but must also study both formal and informal institutions to understand their economic implications. The study of the economic order involves understanding the institutions that enables rational economic agents to coordinate their activities.

A full understanding of institutions involves moving beyond the standard methods of looking at aggregate data and instead engaging in on-the-ground fieldwork to construct an analytical narrative. This fieldwork entails detailed case studies and ethnographic data intertwined in a narrative to understand the everyday life of those in developing and transition countries. Through the use of surveys, directed interviews and participant-observer, make the work of an economist plausible.

This claim, does not, however, preclude the presence of economists who support government intervention. However, a society's institutions will limit the effectiveness of policies. This limitation works in both directions. Government interventions will fail to operate effectively in the absence of institutions to support those policies. Likewise, in the absence of institutions conducive to liberal orders, free-market policies will fail to operate as desired.

Economist should engage in the role of educator, in which he/she explains the workings of the market to the general public as well as those involved in policy. In this role, the economist plays a critical role in shaping public opinion and ideology which is critical for social change to take place.

In the context of public policy, there have been various views on the role of the economist. Milton Friedman stated the following:

> …The role of the economist in discussions of public policy seems to me to be to prescribe what should be done in the light of what can be done, politics aside, and not to predict what is 'politically feasible' and then recommend it…(Friedman 1953: 264) [2].

In other words, Friedman (1953) [2] suggests that the economist should focus on the best realistic alternative rather than the politically expedient course of action. In contrast, Hutt (1971) [3] described a dual role for the economist. He contends that the economist should suggest the politically feasible course of action as well. In other words, Hutt (1971) [3] argued that the economist's policy advice should be along the following lines:

> …In our judgment, the best you will be able to get away with is programme 'A', along the following lines; but if you could find a convincing way of really explaining the issue to the electorate, our advice would have to be quite different… we should have to recommend programme 'B', along the following lines… (Hutt, 1971:23) [3].

Hutt's (1971) [3] dual role for the economist seems to be plausible. In the absence of political constraints, it would be feasible for the economist to prescribe the best possible alternative action. However, if the economist knows that there are certain political constraints on what can and cannot be achieved, his/her advice may change to achieve the desired ends given those constraints.

This is in line with Bauer (1972) [1] who called for interdisciplinary cooperation especially between anthropologists, economists and historians in understanding the plight of underdeveloped countries and, more specifically, to understand:

> …The extremely important and interesting range of issues in the transmission of knowledge, skills, attitudes and inducements between countries and groups among the benefits of this interdisciplinary approach… (that) it may help to convey the value of direct observation and of unprocessed material, and conversely, the pitfalls of reliance on second-hand and third hand material, including reliance on statistics without examination of their sources and background… (Bauer, 1972:305) [1].

The economist can engage in a study of the economic system as well as the indigenous and formal institutions which influence economic activity. He/she is also able to communicate economic laws and the suitability of various means in achieving stated ends.

4. Conclusion

This paper provides a reconsideration of the role of the economist in economic growth. In doing so, the paper first considered the conventional role of economist and how the role of the economist has become what it is today. It argued that economists and policy makers alike overlook the role that indigenous institutions play in economic development. The paper concluded that the informal institutions, which underlie formal institutions, cannot be imposed from above but must develop from the ground up. Imposing formal institutions that do not align with the underlying institutions will not be effective.

The paper also provides a framework for understanding why the conventional view of the economist in economic development persists. The paper's reconsideration of the role of the economist in economic growth, concluded that there is a significant role for the economist to play in this area, that of understanding the interplay of both formal and informal institutions and their impact on economic activity.

In addition, the economist can serve a critical function as an educator and advisor to both the general public and policy makers. In this capacity, the economist plays an important role in shaping public opinion and ideology which is critical in achieving long-lasting institutional and social change. The framework developed here has widespread applications for understanding underdeveloped countries or countries currently in the process of transition.

It can be applied to cases of both success and failure to aid in understanding the current institutions of these countries. Often, studies of these countries focus on the speed of reform and policy changes. The debate on 'shock therapy' versus 'gradualism' is one clear example of this. It goes without saying, however, that the analysis presented here, sheds new light on these studies because it highlights that it is, not simply the speed that matters, but whether changes in the formal institutions are aligned with the underlying institutions, that is indigenous institutions. Justly, understanding the plight of underdeveloped nations requires a complete comprehension of both formal and informal institutions. Grasping what economists can do to remedy the situation of these underdeveloped nations requires a complete understanding of the role of the economist and what the discipline of economics enables him/her to achieve. This paper has provided key insights into achieving success in both of these areas.

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