

Economics: the biggest fraud ever perpetrated on the world?

Do you do Twitter? It is a playful but also a powerful medium. You can amuse, annoy, proclaim, inform, report, and certainly upset. Sometimes a few informal words can lead to a much more thoughtful response. On one dark winter's night recently, I sent a stream of tweets about the impact of economic thinking on health. I have witnessed the power of economics to strengthen the case for investments in global health. I have seen economists take an increasingly important and valuable leadership role in shaping the debate about development assistance for health. And in thinking about sustainability for the post-2015 era, I have been grateful to economists for emphasising that traditional ways of thinking about economic growth simply do not apply when sustainability is our chief concern. But there is a but. The tenets of economics—the centrality of the market, the importance of competition—have begun to influence, distort, and damage the values on which universal health systems

were originally built. Economic instrumentalism, the notion that unless we can prove the economic value of an idea or an intervention it is socially worthless, is now dominant in much of government. We see institutions supposedly dedicated to health now incorporate wealth into their mission statements. The health community has too often colluded with politicians to appease economists who measure value with a financial metric only. It's surely time to challenge economists, their discipline and their arguments, and counter with an alternative philosophy that puts lives ahead of margins and wellbeing before returns on investment. The following essay is a rebuttal by three respected economists who strongly disagree with the ten tweets I sent. I hope this dialogue provokes you to tweet too.

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A series of tweets from the Editor of *The Lancet*, Richard Horton, alleged multiple failings of economics and economists (panel).¹ An informed critique of economics and its practitioners should be welcomed as a means to improve the discipline, but these comments seem to demonstrate a poor understanding, and undermine Horton's intent.

Apart from a natural inclination to defend our chosen profession, our response to Horton's criticisms tackles what we see as some fundamental misconceptions about economics and economists—among other things, their motivation, view of life, and understanding of others' motivations and behaviours. We believe that economics is a toolkit that enables better understanding of how people live, and how societies work. In doing so, it gathers and analyses data with statistical methods, formulates theories, constructs models of complex systems, and sometimes makes predictions. Economics is not a way of life, nor does it aim to promote one—although many economists do express preferences for societal goals such as low unemployment, reduced inequalities, and improved health, as do many other people. Economics does not exclude, or seek to exclude, other explanations of human behaviour—from the anthropological to the psychological—but adds another dimension to understanding why people do what they do.

What is economics about? "The promise economics offers is seductive: how to allocate scarce resources in society. It's a false promise."² "Economists write as if

the economy=society, and societal problems=economic problems. The conflation is false too."³ The first two tweets are more an introduction than a cogent set of criticisms. Economics is, apparently, a "fraud", and offers a "false promise". There is no evidence given to support these assertions, so we cannot answer the case. The statement that economics concerns the allocation of scarce resources in society is true, but in the tweets

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Panel: Tweets from @richardhorton: "Economics, second only to 'management', may just be the biggest fraud ever perpetrated on the world."¹

The case against economics:

- 1 The promise economics offers is seductive: how to allocate scarce resources in society. It's a false promise.²
- 2 Economists write as if the economy=society, and societal problems=economic problems. The conflation is false too.³
- 3 Once there was political economy = economics, ethics, politics. Economists have stripped morality from economics, leaving an arid science.⁴
- 4 The high points of economic thinking are theories, not data. Reliable experimentally derived data are anathema for most economists.⁵
- 5 Economists see health as an economic good. It is an opportunity cost, with zero intrinsic value.⁶
- 6 Rationality, for the economist, means subjecting every thought/decision to a cost-benefit analysis. A wholly narrow view of humanity.⁷
- 7 The big idea in economics is the market. The assumption is that human beings make cost-benefit decisions based only on self-interest. No.⁸
- 8 The essence of economics is price. For those in health who argue for access free at point of delivery, we kill the soul of the economist.⁹
- 9 Economists deny the existence of citizens. They see only consumers.¹⁰
- 10 Finally, it's acceptable to worsen the lives of some provided the gains of others compensate. Economists institutionalise inequality.¹¹

that follow, Horton makes false confluences of his own. In a paper first written for a medical audience, Alan Williams¹² distinguishes between economics as a topic and as a discipline: the object of study of economics, and the way in which it is studied. Economists did not invent the economy. It is a social phenomenon that has a history far longer than that of economics. Economists have, however, made the economy their special area of study, one important aspect of which is the allocation of scarce resources.

Many economists regard the methods of economics as applicable to a wide range of social issues, but that is not the same as thinking that all social problems are economics problems, or that the economy is something other than one aspect of society. Similarly, other disciplines, such as sociology and politics, also study the economy in revealing and helpful ways, as one aspect of society. But, as in those other disciplines, economists do not have a single view; in particular, not all equate economics with a view that markets are the best way to allocate resources in all cases. Horton implies that all economics involves the promotion of market mechanisms, which is another false conflation.

Political economy and morality: "Once there was political economy=economics, ethics, politics. Economists have stripped morality from economics, leaving an arid science."⁴ Horton echoes common misconceptions among lay observers of social science issues about the origins and meaning of the term political economy. Originally, it meant more or less exactly what we now call economics, not the mixture with ethics and politics that he suggests. Now, it no longer has a single meaning, and is therefore less useful than it might be. The suggestion that economics as practised excludes morals has no foundation. Economics is no different to, say, physics, chemistry, and biology, which as sciences have, for example, all developed weapons of mass destruction of many and various kinds. Viewed in that narrow way, all sciences are arid, including medical science. But none of them exclude or replace moral and ethical issues in the way that their findings are put in practice.

Theories or data? "The high points of economic thinking are theories, not data. Reliable experimentally derived data are anathema for most economists."⁵ Thinking without data can be useful—as with philosophy—and theories are helpful in interpretation of data. Throughout much of the time during which

economics has developed, very few economic data were available, they were hard to collect, and there was no scope for experimentation. But modern economics no longer has such constraints, and the consequence is that empirical analysis dominates. Indeed, the most ambitious and expensive randomised controlled trials ever conducted were designed and analysed by economists: the Rand Health Insurance Experiment,¹³ and the Negative Income Tax Experiments.¹⁴

Health, goods, costs, and value: "Economists see health as an economic good. It is an opportunity cost, with zero intrinsic value."⁶ The claim that economists see health as an economic good is probably true for most economists; economic goods are defined as goods or services that are scarce relative to society's desire for them. Health is a very unusual good, because it is intangible (although sickness is not), and cannot be traded, because it is intrinsic to people and cannot be transferred.

What Horton might really have meant is health care, which does not have those unusual characteristics. It is not an invention of economists; unless physicians have had independent incomes, they have always had to make their living by selling their services. The concept of opportunity cost, however, is an invention of economists. It is not a characteristic of goods themselves, and reframes the cost of production in terms of the value of the benefits forgone in the use of resources to produce the next-best good. This notion brings out the economic reality of resource scarcity: to consume something means to give up something else. Nothing is, in this sense, free (not even free lunches, which consume time that could have been spent doing something else). Economists would be stupid indeed to believe that health and health care have no intrinsic value, because if they had no value, why would people be willing to incur opportunity costs to obtain them? In fact, health economists have been at the forefront of the definition and measurement of the value of health care, to ensure that decisions about health care are not made solely on the basis of costs. The UK's National Institute for Health and Care Excellence (NICE) does not take quality-adjusted life-years, and other measures of the benefits of health care, into account just because doctors say that it should.

Rationality and cost-benefit analysis: "Rationality, for the economist, means subjecting every thought/decision to a cost-benefit analysis. A wholly narrow view of humanity."⁷ Rationality in economics simply

means that people behave in ways consistent with their preferences. It is not the only definition of rationality, of course, and should be regarded as a technical term, not an assertion about what rationality in a more general sense means. Rationality is certainly not meant to be prescriptive, or to describe a mental state. It is a simplifying assumption in the analysis of human behaviour, not a description of how people actually behave. If this assumption works—that's fine. If not, more sophisticated assumptions are needed, and economics has traditionally explored many different assumptions about how people make decisions. For example, in his *Theory of Moral Sentiments*,¹⁵ Adam Smith said: "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it." Behavioural economics is almost entirely devoted to the study of non-rational behaviour, and most economists would agree with the view that cost-benefit decisions are applicable only to a narrow range of aspects of humanity. An important distinction is between individual decision making and decisions taken by public bodies such as NICE. Because NICE affects the use and allocation of public money, most people (not just economists) want a transparent decision process that involves the consideration of costs and benefits. Tossing a coin might be fine (and rational) for individuals' decisions involving their own resources, but not for NICE and taxpayers' money.

Markets: "The big idea in economics is the market. The assumption is that human beings make cost-benefit decisions based only on self-interest. No."⁸ The most serious error here is the implication that markets are in some way an idea invented by economists. As implied above, markets are real phenomena that predate economics by many years. Markets are networks of buyers and sellers, whose transactions can be governed by differing motives. Economists have made a study of them, and because markets have historically been an important part of economies, economics involves a lot of market analysis.

Analysis of markets does not require that people make cost-benefit decisions based only on self-interest. True, there is often a simplifying assumption that suppliers to markets aim to maximise profits (the

difference between costs and income), but it is not the only possibility. In health economics this assumption is rarely used, because it is rarely relevant, certainly for health-care institutions. It is even sometimes not true for individual physicians. Those who purchase in a market are usually assumed to have some self-interest, but the most common analyses use the household rather than individuals, which implies some collective interests (albeit narrow relative to society as a whole). But, as the earlier quote from Adam Smith suggests, people do take others' interests into account, even those of unknown strangers, and that is particularly important for the analysis of health care. Even introductory economics textbooks include a discussion of external costs and benefits.

Prices and souls: "The essence of economics is price. For those in health who argue for access free at point of delivery, we kill the soul of the economist."⁹ Economists have indeed made a special study of the role of price in resource allocation. Prices are a financial incentive that affect how people behave in the supply or consumption of goods and services. However, economists also recognise that the use of a price mechanism is just one way to ration goods. There are many other ways, such as distribution according to needs, waiting times, or on a first-come-first-served basis. If a society—as in the UK—decides that another way of rationing better satisfies its aims (such as equal access to health care for equal need), there is no economic theory that suggests it is wrong. Such a decision has consequences, of course, not least the necessity to decide the criteria to determine which people should have access to what resources. Alternative methods to allocate resources should be subjected to the same analysis and evaluation as price mechanisms. However, economists also recognise the distributional consequences of resource allocation by the use of prices, which is why there is so much support among them for non-price mechanisms in health care. If economists have souls, they have the same essence as other people's.

Citizens and consumers: "Economists deny the existence of citizens. They see only consumers."¹⁰ When economists analyse consumption, people are often modelled as consumers. But when production is analysed, people are seen as producers; in selling they are sellers; and so on. Moreover, economists also analyse different collective levels at which economic actions and decisions take place, such as individuals, households, firms, and governments.

There is no presumption that the individual as consumer is the preferred decision unit. More importantly, those who emphasise economic roles as the key relationship that people have with society regard that as a definition of citizenship, not a replacement for it. To be an economist does not mean to subscribe to this concept of citizenship, though many who are not economists do so. Nothing in economics denies the existence of citizens.

Worsening lives and inequality: "Finally, it's acceptable to worsen the lives of some provided the gains of others compensate. Economists institutionalise inequality."¹¹ Mainstream economics in fact has a lot of problems with trade-offs between one person's gain and another's loss, to an extent which often renders economic analysis powerless and of theoretical interest only. Key theoretical ideas include the Pareto criterion, which suggests that we cannot say one state of the world is better than another unless at least one person gains and no-one loses, and the impossibility of making interpersonal comparisons of utility. Welfare economics and social choice theory struggle to create a coherent framework for the analysis of such issues. If anything, this analysis has a disabling effect on economists' ability to judge such dilemmas, and does not give them the simple short-cut to say that such trade-offs are always acceptable. Physicians, and others engaged in decision making in the real world, have few such inhibitions, and cannot afford them because otherwise their decision making would be paralysed.

However, economists have led initiatives to help with such difficult decisions. Economic evaluations make clear the costs and benefits of different options, and should also quantify the distributional effects of decisions or actions. The latter is admittedly less often undertaken because of the difficulties involved. Economists have undertaken many empirical analyses of inequality in both wealth and health,^{16,17} and made proposals to mitigate gross inequalities in economies. Far from institutionalising inequalities, economists have exposed the problems decision makers face, devised ways to measure the problem, and suggested ways to deal with it.

What motivated Horton's critical outburst about economics and economists is not clear. More than 40 years ago, an essay by Alan Williams to defend economic evaluation admitted its imperfections, but concluded with Maurice Chevalier's view on old

age: "Well, there is quite a lot I don't like about it, but it's not so bad when you consider the alternative!"¹⁸ Economics, like medicine, is imperfect. The challenge for practitioners of each is to ensure that the perfect does not drive out the good. Our practices may at times be imperfect, but that should not inhibit our drive to improve clinical practice and economic activity for the benefit of all our patients and citizens. We all must strive to avoid confused analysis in displays of modest understanding of each other's work.

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