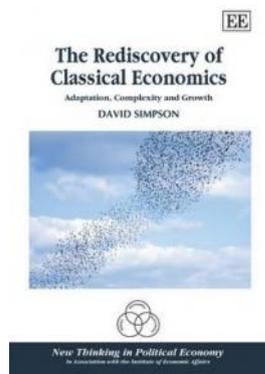


## [The rediscovery of classical economics](#) [1]

Written by [Dr. Eamonn Butler](#) [2] | Friday 25 October 2013



It is appropriate that David Simpson should preface [his new book \*The Rediscovery of Classical Economics\*](#) [3] with the famous 'road less traveled by' poem by Robert Frost. For his purpose is to put forward an alternative to the equilibrium economics that has dominated the subject for nearly a century. His alternative is classical economics, in the tradition of Adam Smith, Marshall and the Austrians. In their view, economic growth is the thing to study; they see markets as a dynamic process rather than as static; and they focus very much on human nature rather than seeing economics as a series of detached, static, mechanical models.

The reliance on equilibrium economics leads to some systematically bad policy mistakes. The mainstream economists tend to assume knowledge, such as the lowest-cost mix for production, that the classical economists point out must be, sometimes painfully, discovered. Knowledge, and how dispersed pieces of partial information are used and co-ordinated by market players, is critical, but the mainstream economists and their policymaker counterparts again assume that they can do better themselves, from the centre ? a fatal conceit. And the mainstream economists again assume that people are rational in their economic behaviour ? which, says Simpson, does not reflect the reality of the world that we are trying to understand.

The book shows how classical approaches provide a much better understanding of how market economies work than does equilibrium theory. All economics is about human behaviour ? something often forgotten by the mathematical modellers ? so Simpson starts with looking at human being, the limited information they have and their hopes and expectations, and adaptive nature. Adaptation of course means constant change, and the book looks at how markets adapt to change in an incremental, voluntary and self-organising way, another useful lesson for policymakers.

Simpson sees the process of policy formulation as another evolutionary, adaptive process, though of course the motivating factors are different. And they are much more complicated than the simple business objective of turning a profit, which is why government policy is so often confused and contradictory. Simpson concludes by extracting some key principles from the Austrian economics including some insights on the severe limitations of mathematical analysis in economics.

Readers who have that uncomfortable feeling that economic policymakers and the economists who advise them have a less than complete understanding of what they are doing will find out, from this book, why

they are right to think like that. I hope both economics and policymakers read the book, as it will make them far more aware of their own limitations when it comes to managing the economy ? which is not a sort of machine you can easily tinker with, but a complex, dynamic network of economic processes that is quite good at organising itself.

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