

Title: London: A practical testbed for economic theory

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Abstract

London is a unique city in the world. This paper considers it as a testbed for economic theory. London is a 'world city', host to nearly half Europe's Corporate Headquarters with a million employees in business and financial services alone. Understanding it involves all levels of economic understanding: global, national, and regional.

Planning London is a particularly exacting test of the theory and expertise that this requires. Regional government faces 'both ways'. It disposes neither of the luxury of concealment available to the national government, nor the luxury of ignorance available to the municipal. Its judgements are subject to challenge from above and below.

London government is therefore on the one hand obliged to scrutinise the economic advice it receives by unusually exacting standards, and hence offers a testbed for the merits of the theories that lie behind this advice; on the other hand, these theories cover an exceptionally wide range of issues economics eg international economics, macroeconomic forecasting, labour market economics, trade, financial economics, etc.

This paper examines economics from the standpoint of London government as a user and consumer of it. It focuses on the imperative for standards of economic judgement that can be applied independent of peer evaluation. It shows that the consumers of economics can and should play the role of 'aggressive intelligent client' towards the profession and shows how the statutory obligations of regional and municipal government in fact oblige it to adopt this approach.

The paper is based, subject to the normal constraints of confidentiality, on the practical experience of commissioning forecasts and making judgements in the government of a city the size of a medium-sized country and demonstrates that an intelligent client, who wishes to get the best scientific use from economics, is obliged to apply standards of critical examination of meaning, empirical verification against independently-obtained data, and pluralism in commissioning including careful attention to heterodox methodologies that the profession often disregards or dismisses.

It considers procedures and methods that the profession of economics may need to consider, to produce output adequate to the exacting standards required by the practical business of government, and reflects on the implications of this for the discipline's aspirations and claims to scientificity.