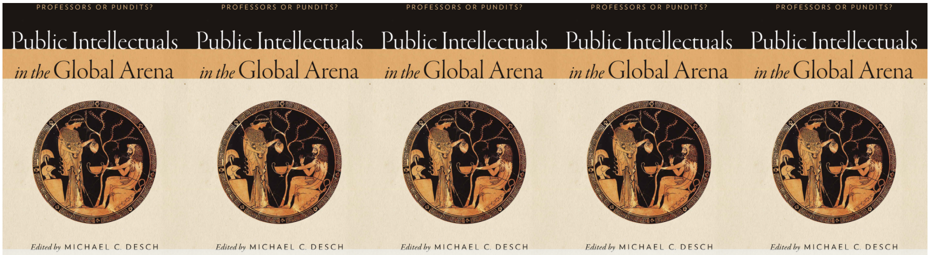

The Economist as…?

The Public Square and Economists

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I. The Salience of the *Economic*

Sit down some evening and watch the news on the TV, or scan the magazine covers in the supermarket, or simply immerse yourself in modern America.

A. Elements of Public-Square Gossip

If you are like me, you will be struck by the extent to which our collective public conversation focuses on seven topic areas:

1. The personal doings of the beautiful, the powerful, and the rich—and how to become more like them.
2. The weather.
3. Local threats and dangers, especially to children.
4. Amusements—usually gossip about the past or about our imaginary friends, frenemies, etc. (it is amazing how many people I know who have strong opinions about Daenerys Stormborn of House Targaryen[1]—many more than have any opinions at all about her creator George R.R. Martin).[2]
5. How to best procure necessities and conveniences.

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[1] http://www.hbo.com/game-of-thrones See *Game of Thrones* (HBO)

[2] http://amzn.to/1TnieXf George R.R. Martin (1996-), *A Game of Thrones* (New York: HarperCollins: 0606238433). Subsequent books in the *A Song of Ice and Fire* series published 1999, 2000, 2005, and 2011.

6. Large scale dangers (and, rarely, opportunities): plagues, wars and rumors of wars, the fall and rise of dynasties, etc.
7. "The economy": unemployment, spending, inflation, construction, stock market values, and bond market interest rates.

Now out of these seven topic areas, the first six are found not just in our but in other societies as far back as we have records. They are common in human history as far back as we have been writing things down, or singing long story-songs to one another around the campfire.

What, after all, is the story of Akhilleus, Hektor, and Agamemnon in Homer's *Iliad* but a combination of (1), (4), and (6)?[3]

Last April, by a strange chance, the internet led me to a passage from the lost *Biographies* of third-century B.C.E. philosopher Hermippos of Smyrna. The passage was about a fourth-century B.C.E. Athenian, Phryne, probably the model for the sculptor Praxiteles of Athens's lost *Aphrodite Knidia* and the painter Apelles of Kos's lost *Aphrodite Anadyomene*. Hermippos wrote of:

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[3] http://amzn.to/26k3LT5 Homer? (700 BCE?), *The Iliad*, 1990 trans. Michael Fagles (New York: Viking: 0670835102)

> ...the dazzling Phryne, who, according to Hermippus of Smyrna, was almost never seen naked. But "at the great festival of the Eleusina and that of the Posidonia in full sight of a crowd that had gathered from all over Greece, she removed her cloak and let loose her hair before stepping into the sea; and it was from her that Apelles painted his likeness of Aphrodite coming out of the sea…

This provided the Athenians and the tourists with a rare opportunity to see her nude. Otherwise you had to be satisfied with art: "it was from her that Apelles painted his likeness of Aphrodite coming out of the sea.[4]

That made me think: was the occupation "philosopher" in the third-century B.C.E. was some weird mixture of what we would call a "philosopher" and what we would call a "writer for *People Magazine*"? It appears so. Surely Hermippos of Smyrna's agent would have welcomed a booking on "Oprah".[5]

Six of these seven topics of public-square conversation are recognizably common across societies and across history.

But we have a seventh.

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[4] http://amzn.to/1Oj5jkU James N. Davidson (1998), *Courtesans and Fishcakes: The Consuming Passions of Classical Athens* (New York: St. Martin's), p. 42.

[5] http://www.oprah.com/index.html "The Oprah Winfrey Show"

It is somewhat different.

And it is what I want to focus on: that our collective public-sphere concern about the *economy* is unusual in historical perspective. Past society's public squares have dealt with issues we would call *economic:* the local price of food is always of general interest as is the supply and demand of traded goods of interest to merchants. The wealth or lack thereof of individuals and cities of interest is always of interest to money-lenders.

B. The Rise of the Economy

But the economy?

There really wasn't such a thing before 1700.

We only begin to even see the word in the eighteenth century, as the phrase "home economics"—teaching how to cook, how to sew, how to clean, and how to budget—finds its first word replaced by "political".[6] Then "political economy" becomes a study of how the government managers should do for the state the things that a household manager does for a household. And then, in the nineteenth

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[6] http://www.bradford-delong.com/2016/04/the-phrase-political-economy.html Google Ngram Viewer reports an exponential explosion of "political economy" starting in the 1790s.

century, the “political” gets dropped. Why? As part of a movement to make the subject less, well, political—less partisan. It is a semi-deliberate move by those who were political economists and seek to become economists to claim a mantle for their discipline as more an objective branch of knowledge—one that can at least aspire to the prestige of a true “natural science”—and thus the respect given to the advice possessed by a technocratic what-works discipline like engineering.

So why does “the economy” and its study—”economics”—become a concept that needs a label in the eighteenth century? Why do we today watch it on the TV and read about it in the newspaper, instead of learning more normal things. We could be learning about Phryne’s dress secrets, or Odysseus’s least-known battle strategems, or Akhilleus’s favorite recipes instead.

I believe that there is an important and relatively straightforward answer.

When we look into the deep past, the evidence—especially the skeletal evidence that finds adult humans around the year 1 little more than five feet tall[7]—strongly suggests

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[7] https://campus.fsu.edu/bbcswebdav/users/jcalhoun/Courses/Growth_of_American_Economy/Chapter_Supplemental_Readings/Chapter_29/Steckel-Stature_and_the_Standard_of_Living.pdf See Rick Steckel (1995), “Stature and the Standard of Living”, Journal of Economic Literature 33: 4 (December), pp. 1903-1940"

that, save for a relatively small upper class, and save for lucky generations born into times of temporary land abundance given population and available technology (arising from the rapid-at-general-scales diffusion of technological changes like the invention of the wet-rice paddy or the horse collar, or from previous plague) the bulk of human populations saw very little economic change. Most people lived for the most part close to subsistence in the years between the invention of agriculture and 1500 or so. We can guess at what their material standard of living was like, and we can guess that their income level would strike us in today's dollars as something less than $1000 per person per year.[8]

We do see substantial population growth before 1500: we guess that there were about 5 million humans in 8000 B.C.E., and 500 million in 1500, for we had lots better agricultural and herding "technology" in 1500 than we did in 8000 B.C.E. But all or nearly all of better technologies between 8000 B.C.E. and 1500 showed up in Malthusian fashion as increasing population rather than increasing

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[8] http://www.ggdc.net/maddison/maddison-project/publications/wp4.pdf Jutta Bolt and Jan Luiten van Zanden (2013), "The First Update of the Maddison Project: Re-Estimating Growth Before 1820" (Groningen: University of Groningen)

living standards.[9] Crunch these guesstimates, and find a worldwide economic growth rate of 0.05%/year. That is not five percent per year.

Thus what might have been called the *economy* was pretty much an unchanging backdrop back before 1500 from the standpoint of any individual year, or, indeed, from the standpoint of any individual's lifetime—plagues, war and rumors of war, and their economic consequences aside. Substantial transformations of what might have been called the *economic* would have been visible only if one stepped back and looked across multiple centuries at what Fernand Braudel called the *Longue Durée*[10]—the analytical perspective from which the long and gradual four-century long spread of the Merino-breed sheep across Mediterranean and then northwest Europe truly was a really big deal. Thus in any previous era the idea that one should pay attention to somebody called an *economist*—that there would even be a subject called *economics* that could be thought of as significant—would have been a strange one indeed.

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[9] http://faculty.econ.ucdavis.edu/faculty/gclark/210a/readings/kremer1993.pdf See Michael Kremer (1993), "Population Growth and Technological Change: One Million BC to 1990", Quarterly Journal of Economics 108:3 (August), pp. 681-716"

[10] http://amzn.to/1WhHVuP Fernand Braudel (1992), *Civilization and Capitalism, 15th-18th Century: The Structure of Everyday Life* (Berkeley: University of California: 0520081145)

C. The Centrality Today of the Economic

Compare that to the years since 1900 in which worldwide average real GDP growth of 3.5% per year. Compare that to the years from 1990-2007: worldwide average real GDP growth of 4.5%/year.[11] And compare that to what happened in 2008-9: an eight-percent fall in total economic production in the United States and a six percent fall in employment driven purely by the derangement of our economy, and not by any change in our knowledge or our technological capabilities or in the rest of the natural world.[12]

The fact is that we today see roughly 100 times as much *economic* growth and change in any given period—for good and for ill—than our pre-1500 ancestors did. Today

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[11] http://delong.typepad.com/files/2016-04-04-econ-1-spring-2016-uc-berkeley-lecture-finance-1.pdf Latest estimates from J. Bradford DeLong (2016), "Econ 1: Economic Growth Lecture II" (April 4)

[12] http://amzn.to/1r2wZVR The two best books to read on the macroeconomics of the past decade are: Barry Eichengreen (2015), *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses-and Misuses-of History* (New York: Oxford University Press: 0199392005); and Martin Wolf (2014), *The Shifts and the Shocks: What We've Learned-and Have Still to Learn-from the Financial Crisi*s (London: Penguin Press: 1594205442) http://amzn.to/1r2xlf j. Also very useful is Gary Gorton (2010), *Slapped by the Invisible Hand: The Panic of 2007* (New York: Oxford University Press: 0199734151) http://amzn.to/1r2xOOo.

economic change is a very big deal that determines what kind of job you will have, and if you will have a job, and how you will live ten or twenty years from now—if not tomorrow. Is it any wonder, given this ramping up of the pace of change, that the *economy* is salient today? Ours is an era in which, in our consciousness, issues like the *filioque* clause and the vicissitudes of the Bush or Habsburg dynasties appear to us to be in relative terms less salient, and the *economy* much more so. In such an age it is natural that the public square has a desire to listen to *economists*—for they claim to have knowledge about what is an important, newsworthy, and changing aspect of our civilization. And it is natural that economists will seek to speak today in the public square as public intellectuals.

II. Analyzing Emergent Properties of Decentralized Exchange

So what do economists have to say when they speak not within but outside the discipline, and present themselves as public intellectuals in the public square?

As I see it, economists have six things to teach: the deep roots of markets in human psychology and society, the extraordinary power of markets as decentralized mechanisms for getting large groups of humans to work broadly together rather than at cross-purposes, the ways in which markets can powerfully reinforce and amplify the harm done by domination and oppression, the manifold other ways in which the market can go wrong because it is somewhat paradoxically so effective, and how the market needs the state to underpin and manage it on the "micro" level. There is a sixth: how the market needs the state to underpin and manage it on the "macro" level. But let me postpone that briefly.

A. Five "Micro" Things Economists Say

At the level of the "micro"—of how individuals act, and of their well-being as they try to make their way in the world—economists really have five things to say when they enter the public square and public intellectuals:

The Deep Roots of Markets: First, and probably most important, at some deep level human sociability is built on gift-exchange—I give you this, you give me that, and rough balance is achieved, but in some sense we both still owe each other and still are under some kind of mutual obligation to do things to further repay each other. Wherever we look in human societies across space or across time we find such overlapping networks of gift-exchange and resulting reciprocal obligation to be an important share of the social glue that holds us humans together.[13] On top of this deep gift-exchange sociability, economists say, we humans have built an economic system of decentralized market exchange.

Today a great many of our gift-exchange relationships are not long-term relationships over time with people we come to know well, but rather one-shot exchanges with people we do not necessarily expect to ever see again. These exchanges are mediated by tokens called "money" that are acceptable to each of us as payment or repayment because they are acceptable to all of us. And this great enhancement of our potential network of those with whom we can exchange is what allows us to have a wide and productive rather than a cramped and penurious social distribution of labor.

This part of what economists have to say has been very clear since Adam Smith in 1776 published the first edition of his *Inquiry into the Nature and Causes of the Wealth of*

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[13] http://amzn.to/21jwfso State-of-the-art in thinking about these issues is, to my knowledge: Paul Seabright (2010), *The Company of Strangers: A Natural History of Economic Life* (Princeton: Princeton University Press: 0691146462); the brilliant Karl Polanyi (1946), *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press: 080705643X) http://amzn.to/24pwRP9; and the stimulating but not very reliable Karl Polanyi et al., eds. (1971), *Trade and Market in the Early Empires* (New York: Henry Regnery: 0895269910) http://amzn.to/1pOZFRs.

Nations.[14] Because humans have a "natural propensity to truck, barter, and exchange", we can build markets of wide extent. Because "the division of labor depends on the extent of the market", our extensive markets allow a detailed and sophisticated division of labor. And Adam Smith saw the detailed and sophisticated division of labor of eighteenth-century Britain as the principal cause of its relative productivity and prosperity. It is, perhaps, the most important thing that economists have to say as public intellectuals in the public square.

The Extraordinary Power of Markets: Second, and probably second-most important, organizing a great deal of our societal distribution of labor around market exchange mediated by tokens called "money" is not just something that works with the grain of the crooked timber of humanity, but also something that turns out to be extraordinarily powerful and effective as a decentralized societal calculating mechanism for determining what is to be collectively produced, how it is to be produced, and for whom it is to be produced. Take market exchange, add private property in things, and the proviso that people can get together and form smaller hierarchical or cooperative forms of economic organization within the matrix of the market economy when they think best, add the proviso that

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[14] http://www.gutenberg.org/ebooks/3300 Adam Smith (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations* (London: Strahan and Cadell)

there is a government to enforce its conventions about property rights and contract obligations, and you find that you have a system that as a whole has marvelous advantages.

(A) It happens that the great bulk of commodities in this world are what economists call *rival* in use—if I am making use of it, you cannot be. Thus one person's enjoyment and use of a particular item reduces the available options of others. It thus makes sense for a rational and efficient social system to make a person who decides to feel the effect of their actions on the opportunities and choices of others. It turns out that if you (i) assign exclusive property rights to use to someone, and (ii) require a person to pay a market price for the privilege of transferring those rights, then you have (iii) a marvelously effective way of making each feel the effect of their decisions on the well-being of all. This is quite a coincidence. Nineteenth-century economist Richard Whately—the only person ever to have been in rapid succession Professor of Political Economy at Oxford and

Archbishop of Dublin—detected the hand of Providence in this truly divine coincidence.[15]

(B) It just turns out to be the great bulk of decisions about what is the best economic use of resources in the world are best made at the local level, by individuals who actually know what is going on. It is not good to make them in some centralized Kremlin or GOSPLAN office.[16]

(C) And, again by coincidence, it turns out that exclusive and transferable private property is a good way of making decisions take place where the information is at the periphery, rather than at the center where the information is not. And, as Ronald Coase pointed out, one of the geniuses of our market system is that it allows for islands of centralized hierarchy wherever and whenever people decide that there is stuff to be gained by centralized hierarchical planning and coordination, or by some other mode of

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[15] https://books.google.com/books/about/Introductory_Lectures_on_Political_Econo.html?id=R549AAAAcAAJ See Richard Whately (1831), *Introductory Lectures on Political Economy* (London: B. Fellows); Salim Rashid (1977), "Richard Whately and Christian Political Economy at Oxford and Dublin", *Journal of the History of Ideas* 38: 1 (Winter), pp. 147-155 http://www.jstor.org/stable/2708847.

[16] http://www.jstor.org/stable/1942862 Richard E. Ericson (1991), "The Classical Soviet-Type Economy: Nature of the System and Implications for Reform", *Journal of Economic Perspectives* 5:4. (Autumn), pp. 11-27.

coordination and collective decision-making other than decentralized market exchange.

That extraordinary power of markets that just happens to fit our world of largely rival commodities in which decision-making is largely better decentralized is, perhaps, the second most important thing that economists have to say as public intellectuals in the public square. But do note that what has been true in the agrarian age in which Adam Smith lived that ended with the eighteenth century and in the industrial age of the nineteenth and twentieth centuries may not be true in whatever kind of age the twenty-first century tuns out to be.

Market Systems Reinforce and Amplify the Harm of Domination: Third, and probably third most important, is that market systems can and do amplify the harm done by power imbalances: slavery in the context of the American South's cotton plantations was a much worse thing than slavery in the context of West African households precisely because the first were embedded in a market economy and so there was a great deal of money to be made by whipping slaves to work until they dropped. Market systems are at the bottom very good ways of getting people to respond to incentives. Power imbalances create situations in which we would rather that people not have more reason to use their power.

Such power imbalances can cause enormous misery in the context of a market economy even in the absence of incentives to behave with affirmative cruelty, for power imbalances turn into wealth imbalances, and a market economy's underlying calculus is a calculus of doing what wealth wants rather than what people need. Wealth imbalances alone produce a situation in which we do not like the pattern of incentives that the market system provides to individuals, and in which market systems go horribly, dreadfully, diabolically wrong.

Consider the Bengal famine of 1942.[17] In Bengal, in 1942, because of the interruption of world trade, those whose sole wealth was their labor in the jute plantations found their wealth valued at zero—nobody wanted to hire them because nobody thought it worthwhile to grow jute that would then have to be shipped out through the Indian Ocean as long as there was a chance that the aircraft carrier's of the Imperial Japanese Navy's *Kido Butai* might be prowling the ocean. And then the coming of the logistical train for the Burma campaign greatly increased demand for and the price of staple food. Without wages to earn, the ex-jute workers of Bengal had no wealth and no money to pay for food. With no money to pay, the market provided those in other parts of India who had food with

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[17] http://amzn.to/1r2CeVz See Amartya Sen (1981), *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford: Oxford University Press: 0198284268).

little incentive to move the food to Bengal and sell it to the ex-jute workers. Two million people died, even though there was ample food in India for the population as a whole.

And the British state that ruled India, and was responsible for checking to see whether the incentives the market system was providing really were the incentives that people were responding to? Prime Minister Winston Churchill sent a telegram, asking: if it were really true that there was famine in India, why was Mohandas Gandhi still alive?[18]

As people here at Notre Dame know well, such behavior by the British Empire was not exceptional. My Gallagher ancestors and the founders of this university knew well the earlier failure of the British state to take appropriate action to rebalance the distribution of wealth and prevent mass starvation in 1846-8, similary in the midst of ample food nearby and plenty of resources to transport it.

Other Ways the Market Can Go Wrong: Fourth, even when the distribution of wealth is right, the market system can still go wrong and provide the wrong incentives. The

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[18] http://amzn.to/1QFlvwB Madhusree Mukerjee (2010), *Churchill's Secret War: The British Empire and the Ravaging of India during World War II* (New York: Basic Books: 0465002013). Quoting Viceroy Archibald Wavell's diary for July 5, 1944: "Winston sent me a peevish telegram to ask why Gandhi hasn't died yet. He has never answered my telegram about food".

brilliant Ronald Coase of the University of Chicago—still productively at work as an economist early in this decade, even though his age had reached three figures—was interpreted to have argued that pretty much any arrangement of property rights will do about as well as any other and the government should simply step back.[19]

The canonical case adduced was the locomotive that occasionally throws off sparks that burn the nearby farmer's crops. If the railroad has a duty of care not to burn the crops, Coase said, the railroad will attach spark-catchers if it is cheap and makes sense to do so—and the railroad will pay damages and settle in order to avoid being hauled into court on a tort claim if it is expensive and doesn't make sense to do so. If the railroad has no duty of care, Coase said, then the farmer will offer to pay the railroad to install spark-catchers—and spark-catchers will be installed if the potential damage to the crops is greater than the cost of the spark-catcher and it makes sense to do so, and spark-catchers will not be installed if the damage to the crops is less than the cost.

Thus, Coase argues, the same decisions about what to make and how to organize the making will be made whatever the property rights—as long as there are settled property rights.

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[19] http://www.jstor.org/stable/724810 Ronald Coase (1960), "The Problem of Social Cost", *Journal of Law and Economics* 3 (Fall), pp. 1-44.

If there are not settled property rights, then the crops burn and lawyers grow fat. But as long as there are property rights, the market will work fine. Perhaps the widows and orphans who own railroad shares will be wealthier under one setup. Perhaps the farmers will be wealthier under the other. But those issues are, Coase and his Chicago fellows maintained, rarely a matter of great public concern.

Now this argument has always seemed to me to be wrong.

If there is no duty of care on the part of the railroad, it has an incentive not just to threaten not to install a spark-catcher, but to design and build the most spark-throwing engine imaginable—to make sure that the firebox is also a veritable flamethrower—and then to demand that the farmer bribe it not to set the fields on fire. People can invest not just in production but in destruction, and what the no-contract default allocation is powerfully shapes those investments.

Moreover, what economists call "externalities" are rife. They call for the government to levy taxes and pay bounties over wide shares of the economy in order to make the incentives offered by the tax-and-bounty-augmented market the incentives that it is good for society that decision-making individuals have. Cutting property rights "at the joints" to reduce externalities is important. But it will never be efficient. What economists call Pigovian taxes and bounties make up a major and essential part of the business of government. And

The Market Needs the State: Fifth, the market needs the state. For the market system to work well and produce a good outcome, outcomes need to be dictated not by inequalities of wealth or power but by genuine win-win exchanges. This means that the government has to set out and maintain its laws of property and contract, so that what is yours stay yours and what is promised is delivered at good weight. In the absence of a properly-regulating government, what is yours is not yours, what is promised will not be delivered, and weight will not be good: instead, either roving bandits, local notables with bully boys functioning as barely-better stationary bandits, or the government's own functionaries abusing its powers will decide that what was yours is now theirs.

Having a government powerful enough to set out and enforce laws of property and contract that does not then turn around and become the largest and most destructive stationary bandit of all is perhaps the most difficult of all problems of political economy, for a government is, as the philosopher Ibn Khaldun wrote,[20] at its foundation an organization that prevents all injustices save for those it commits itself.

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[20] http://amzn.to/21jzvnF Ibn Khaldûn (1377), *The Muqaddimah: An Introduction to History* (Princeton: Princeton Classics: 0691166285).

Those five points and their application to the issues of today are what economists have to say about “micro” topics, when they don the mantles of public intellectuals and speak in the publish square.

Moreoever, it is economists’ task to speak about how much the technical details matter, and the technical details do matter—would you have thought *ex ante* that it would be important whether the property rights of the farmer were boosted by a requirement that anybody running machinery nearby have a duty of care? Economists are worth listening to—and hopefully paying—to the extent that they can combine their knowledge of the basic principles with sufficient institutional knowledge to understand just what small differences in regulatory institutions and organizations will mean for the distribution of wealth, and for the on-the-ground incentives provided to humans.

Economics in the public sphere is thus a difficult, important, and subtle discipline. It is concerned with what are the emergent properties of basing a great deal of the construction of our collective social division of labor on a decentalized system of money-mediated market exchange. Many of these emergent properties are not obvious and not well understood. And the devil is often in the details. That is why I looked forward in my twenties to making a comfortable living as an economist—as a speaker in the public square, as someone pushing forward we economists' collective understanding of these emergent properties, and as someone teaching non-economists how to listen when we do speak in the public square. So far I have not been disappointed.

B. Macroeconomics in the Public Square

There is a sixth thing economists have to say in the public square. It is about "macro": about how sometimes the entire market system appears to go awry in one of several puzzling ways.

Sometimes when you go the market, you find the money prices that you have to pay higher than you expected—perhaps 10% higher than you expected last year when you made your plans. It seems that, somehow, there is too much spending money chasing too few goods. How is this that this happens? And what should the government do to make sure that it does not happen?

Conversely, we can have the opposite problem—not a glut of money relative to goods, but what early-nineteenth century economists used to call a "general glut" of unsold commodities, idle factories and workshops, and idle workers all across the economy. Economists have important things to say about how to try to prevent these episodes and what to do when they happen to cure them. And this sixth role of economists as public intellectuals in the public square is worth going into in more depth.

Back in the 1820s the question of whether the circular flow of economic activity as mediated by the market system could break down and the economy become afflicted by a "general glut" of commodities was a live theoretical question. Everybody agreed that there could be particular gluts. Consider what happens should households decide that they want to spend less on electricity to power large-screen video and audio entertainment systems and more on yoga lessons to seek inner peace. The immediate consequence—within the "market day," as late-nineteenth century British economist Alfred Marshall would have put it[21]—of this shift in preferences is excess demand for yoga instructors and excess supply of electric power. Prices of electricity (and of large-screen TVs, and of audio systems) fall as unsold inventories pile up in stores and as generators spin down and stand idle. Yoga instructors, by contrast, find themselves overscheduled, working ten-hour days, and stressed out—and find the prices they can charge for their lessons going through the roof. Workers in electric power distribution and in video and audio production and sales

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[21] https://www.marxists.org/reference/subject/economics/marshall/bk5ch03.htm Alfred Marshall (1990), *Principles of Economics* (London: Macmillan and company)

find that they must either accept lower wages or find themselves out on the street without jobs.

Over time, the market system provides individuals with changing incentives that resolve the excess-supply excess-demand disequilibrium. Seeing the fortunes to be earned by teaching yoga, more young people learn to properly regulate their svadisthana chakra and teach others to do so. Seeing unemployment and stagnant wages in electrical engineering, fewer people major in EECS. The supply of yoga instructors grows. The supply of electrical engineers shrinks. Wages of yoga instructors fall back towards normal. Wages of electrical engineers rise. And balanced equilibrium is restored. Thus we understand how there can be a glut of a particular commodity—in this case, electric power. And we understand that it is matched by an excess demand for another commodity—in this case, yoga instructor services to properly align your *svadisthana chakra*.

But can there be a general glut, a glut of everything?

Some economists early in the nineteenth century said yes. Other said that the idea of a "general glut" was logically incoherent. Jean Baptiste Say, for example:

> Letters to Mr. Malthus: I shall not attempt, Sir, to add... in pointing out the just and ingenious observations in your book; the undertaking would be

> too laborious.... [And] I should be sorry to annoy either you or the public with dull and unprofitable disputes. But, I regret to say, that I find in your doctrines some fundamental principles which... would occasion a retrograde movement in a science of which your extensive information and great talents are so well calculated to assist the progress....
>
> What is the cause of the general glut of all the markets in the world, to which merchandize is incessantly carried to be sold at a loss?... Since the time of Adam Smith, political economists have agreed that we do not in reality buy the objects we consume, with the money or circulating coin which we pay for them. We must in the first place have bought this money itself by the sale of productions of our own. To the proprietor of the mines whence this money is obtained, it is a production with which he purchases such commodities as he may have occasion for.... From these premises I had drawn a conclusion... "that if certain goods remain unsold, it is because other goods are not produced; and that it is production alone which opens markets to produce."...
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> [W]henever there is a glut, a superabundance, [an excess supply] of several sorts of merchandize, it is because other articles [in excess demand] are not produced in sufficient quantities... if those who produce the latter could provide more... the former would then find the vent which they required...[22]

Yet Say changed his mind.

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[22] https://books.google.com/books?id=7iArAQAAMAAJ&pg=PA2&lpg=PA2 Jean Baptiste Say (1821), *Letters to Mr. Malthus on Several Subjects in Political Economy, and on the Stagnation of Commerce* (London: Sherwood, Neely, and Jones).

By 1829, in his analysis of the British financial panic and recession of 1825-6, Jean-Baptiste Say was writing that there could indeed be such a thing as a general glut of commodities after all: "every type of merchandise had sunk below its costs of production, a multitude of workers were without work. Many bankruptcies were declared..." The general glut, Say wrote in 1829, had been triggered by a panicked financial flight to quality in financial markets. What was going on? The answer was nailed by John Stuart Mill:

> Those who have... affirmed that there was an excess of all commodities, never pretended that money was one of these commodities.... What it amounted to was, that persons in general, at that particular time, from a general expectation of being called upon to meet sudden demands, liked better to possess money than any other commodity. Money, consequently, was in request, and all other commodities were in comparative disrepute….
>
> The result is, that all commodities fall in price, or become unsaleable.... [A]s there may be a temporary excess of any one article considered separately, so may there of commodities generally, not in consequence of over-production, but of a want of commercial confidence...[23]

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[23] https://books.google.com/books?id=c-0DAAAAQAAJ John Stuart Mill (1829), "The Influence of Consumption Upon Production", published in John Stuart Mill (1844), *Essays on Some Unsettled Questions of Political Economy* (London: John Parker).

Note that these financial market excess demands can have any of a wide variety of causes: episodes of irrational panic, the restoration of realistic expectations after a period of irrational exuberance, bad news about future profits and technology, bad news about the solvency of government or of private corporations, bad government policy that inappropriately shrinks asset stocks, et cetera.

When the government does not create “enough” money and safe savings vehicles you have an excess demand for them, an excess supply of everything else, and high unemployment and idle factories.

It seems as if there is always or almost always something that the government can do to affect asset supplies and demands that promises a welfare improvement over, say, waiting for prolonged nominal deflation to raise the real stock of liquid money, of bonds, or of high-quality AAA assets. Monetary policy open market operations swap AAA bonds for money. Quantitative easing that raises expected inflation diminishes demand for money and for AAA assets by taxing them. Non-standard monetary policy interventions swap risky bonds for AAA bonds or money. Fiscal policy affects both demand for goods and labor and the supply of AAA assets—as long as fiscal policy does not crack the status of government debt as AAA and diminish rather than increasing the supply of AAA assets.

Government guarantees transform risky bonds into AAA assets. Et cetera.

And the government's proper task is made much more difficult by the fact that what is "enough" jumps around. As the set of savers and investors do their behavioral-economics thing, demand for safe and liquid assets to serve as creators of trust jumps around too. These jumps generate the Kindlebergian financial cycles: displacement, profit, transformation, boom, speculation, enthusiasm, mania, crisis, panic, revulsion, and discredit.[24]

When the government creates "too much" money and safe savings vehicles, you have an excess supply of them and an excess demand for everything else--which means inflation. And what if there is a glut not of commodities but inflation? Simply apply the same policy tools in reverse.

Right now our economy is going badly wrong in this "macro" dimension, with a prime-age 25-54 adult employment-to-population ratio of barely 78% even as late as the spring of 2016, when in a healthy and well-functioning macroeconomy that number should north of

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[24] http://amzn.to/1SDo5p8 Charles P. Kindleberger (1978), *Manias, Panics, and Crashes: A History of Financial Crises* (New York: John Wiley: 0471389463).

80%.[25] The only excuse my friends in the Obama administration offer is that Europe is doing much worse.[26]

That is the last of the six things economists have to say in the public square: that the economy does not consistently balance itself at high employment with stable prices. The principle that it does economist have called Say's Law—even though Say abandoned it by 1829.[27] And it is important for economists to say, loudly, that Say's Law is not true and theory, and it takes delicate and proper technocratic management to make it work in practice.

So economists' τεχνε does have many powerful lessons for the public square. They are:

1. a bias toward freedom, choice, decentralization, and individual responsibility;

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[25] https://research.stlouisfed.org/fred2/graph/?graph_id=303990 Federal Reserve Bank of St. Louis (2016), FRED: Federal Reserve Economic Data.

[26] http://voxeu.org/article/how-euro-crisis-was-successfully-resolved Barry Eichengreen and Charles Wyplosz (2016), "How the Euro Crisis Was Successfully Resolved," *VOX: CEPR's Policy Portal* (February 12).

[27] http://delong.typepad.com/sdj/2011/01/what-more-is-there-to-be-said.html See J. Bradford DeLong (2011), "What More Is There to Be Said?" quoting Jean-Baptiste Say (1829), *Cours Complet d'Economie Politique Pratique* (Paris: Rapilly) https://books.google.com/books?id=dk5AAAAAcAAJ

2. knowledge that systems of decentralized market exchange have important emergent properties that depend on close knowledge of and careful reasoning from institutional details;
3. a recognition that markets can amplify oppression as well as opportunity;
4. a fear that getting those institutional details wrong produces horrible outcomes;
5. a recognition of the importance of government to get details right; and
6. a recognition of the importance of government to act as a balance wheel when the set of savers and investors do their behavioral-economics thing.

III. Economics as a Vocation

That is how we economists try to sell ourselves, and also how we see ourselves. We as a species have made a choice to organize our very large—now seven-billion human wide—social division of labor largely through decentralized arms-length market exchange. Such a system has powerful advantages. Such a system also has lots of emergent properties, good and bad, that are non-obvious consequences of institutional and regulatory details. Economists are here to tell you what's what, and how to do.

A. John Maynard Keynes

The aim is, as John Maynard Keynes said at the start of the 1930s at the end of his talk about “Economic Possibilities for Our Grandchildren”, to be a profession that performs a very useful but not overwhelmingly important role in understanding the economy and how to treat it in a way analogous to the way that dentists perform a useful but not overwhelmingly important role in understanding teeth and how to treat them:

> [People should not] overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater and more permanent significance. It should be a matter for specialists—like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid![28]

Yet was there ever a dentist who attempted to reshape, in the interest of dental hygiene, the shape of human destiny in the way that Keynes in the interest of economic hygiene tried to do pretty much every day. Here is Keynes reviewing Leon Trotsky’s *Where Is Britain Going*:

> A CONTEMPORARY reviewing this book says: “He stammers out platitudes in the voice of a phonograph with a scratched record.”... In its English dress it emerges in a turbid stream with a hectoring gurgle

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[28] http://amzn.to/1SDpZpJ John Maynard Keynes (1930), “Economic Possibilities for Our Grandchildren”, published in John Maynard Keynes (1931), *Essays in Persuasion* (London: Macmillan: 1169831974), pp. 358-373.

> which is characteristic of modern revolutionary literature translated from the Russian. Its dogmatic tone about our affairs, where even the author's flashes of insight are clouded by his inevitable ignorance of what he is talking about, cannot commend it to an English reader....
>
> The book is, first of all, an attack on the official leaders of the British Labour Party because of their "religiosity", and because they believe that it is useful to prepare for Socialism without preparing for Revolution.... "Together with theological literature, Fabianism is perhaps the most useless, and in any case the most boring form of verbal creation....
> " [T]hat is how the gentlemen who so much alarm Mr. Winston Churchill strike the real article....If only it was so easy! If only one could accomplish by roaring, whether roaring like a lion or like any sucking dove!...
>
> [Trotsky] assumes that the moral and intellectual problems of the transformation of Society have been already solved—that a plan exists, and that nothing remains except to put it into operation.... [But] force would settle nothing.... We lack more than usual a coherent scheme of progress, a tangible ideal. All the political parties alike have their origins in past ideas and not in new ideas—and none more conspicuously so than the Marxists. It is not necessary to debate the subtleties of what justifies a man in promoting his gospel by force; for no one has a gospel. The next move is with the head, and fists must wait.[29]

Did ever any humble dentist write so?

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[29] http://amzn.to/1O0RpUp John Maynard Keynes (1926), "Trotsky On England", published in John Maynard Keynes (1933), *Essays in Biography* (London: Macmillan: 1162559489).

On the one hand, Keynes claims to be asserting only a very minor kind of authority±that based on his expert knowledge of the emergent properties of systems of decentralized market exchange—and to be giving merely technical advice about adjustments needed to achieve self-evidence and obvious goals like full employment, price stability, and healthy increases in productivity. He claims to be performing the economic equivalent of the dentist saying: “you should brush your molars much longer in the morning” and “that tooth has to come out now or you will be in real trouble”.

On the other hand, Keynes then leverages his professedly limited technical and technocratic expertise to attempt to banish from participation in high politics entire schools of political and moral thought, entire mass movements with their utopian aspirations, and to silence via their exclusion from valid technocratic debate the prophets of those schools of thought and mass movements. Trotsky is indeed a prophet—as Edmund Wilson wrote in his *To the Finland Station*:

> Here are some references [from Trotsky]....
>
> "If the prince was not succeeding in peacefully regenerating the country, he was accomplishing with remarkable effectiveness the task of a more general order for which history had placed him at the head of the government: the destruction of

> the political illusions and the prejudices of the middle class."
>
> "History used the fantastic plan of Gapon for the purpose of arriving at its ends."...
>
> History, then, with its dialectical Trinity, had chosen Prince Svyatopolk-Mirsky to disillusion the middle class, had propounded revolutionary conclusions which it had compelled Father Gapon to bless.... These statements make no sense whatever, unless one substitutes for the words “history” and “dialectic of history” the words “Providence” and “God”...[30]

And it is not just Trotsky and his followers whom Keynes wishes to banish. He would apply the same to the stewards of Europe today, and to that part of President Barack Obama who speaks of how because the current Lesser Depression has compelled households to tighten their belts that the government needs to tighten its. As he said back in 1931:

> It seems an extraordinary imbecility that this wonderful outburst of productive energy [in the boom] should be the prelude to impoverishment and depression. Some austere and puritanical souls regard it both as an inevitable and a desirable nemesis on so much overexpansion, as they call it; a nemesis on man's speculative spirit. It would, they feel, be a

[30] http://amzn.to/1N7KiPs Edmund Wilson (1940), *To the Finland Station: A Study in the Writing and Acting of History* (New York: Harcourt, Brace: 1590170334.

> victory for the mammon of unrighteousness if so much prosperity was not subsequently balanced by universal bankruptcy.
>
> We need, they say, what they politely call a 'prolonged liquidation' to put us right. The liquidation, they tell us, is not yet complete. But in time it will be. And when sufficient time has elapsed for the completion of the liquidation, all will be well with us again.
>
> I do not take this view. I find the explanation of the current business losses, of the reduction in output, and of the unemployment which necessarily ensues on this not in the high level of investment which was proceeding [during the boom]... but in the subsequent cessation of this investment. I see no hope of a recovery except in a revival of the high level of investment. And I do not understand how universal bankruptcy can do any good or bring us nearer to prosperity...[31]

There is more than a little inconsistency and tension here...

B. Alasdair Macintyre

You can resolve this inconsistency and tension in one of several ways.

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[31] http://amzn.to/1SzmOmm John Maynard Keynes (1931), *Unemployment as a World-Problem* (Chicago: University of Chicago Press: B0006DAFZQ).

We are here at Notre Dame. At Notre Dame it is impossible to think about issues of history and moral philosophy without thinking of Alasdair Macintyre and his brilliant *After Virtue*,[32] surely one of the best and most important books in history and moral philosophy of the second half of the twentieth century. We economists are the epitome of one of Macintyre's principal targets in *After* Virtue: we are those he condemns as *managers*.

Economists seek to leverage a narrow claim to limited technical and technocratic expertise to banish and dispel Trotsky and all his works. Alasdair Macintyre, by contrast, seeks to banish and dispel all economists—for we are the archetypes of what he regards as one of the most unhealthy and poisonous diseases of modernity, the disease of "managerialism". What Macintyre sees as the vice of the manager—that he or she doesn't tell you to do X or not to do X—we see as the virtue of the economist: we are just supposed to tell you what is likely to happen *if* you do X.

Of course, to provide someone with knowledge of the consequences may be simply to give them the kind of freedom that is necessity: the freedom to do what is the right thing. The old Cold War joke was of the strategist who would offer the president three possible options: immediate

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[32] http://amzn.to/1SDr6pq Alasdair Macintyre (1981), *After Virtue: A Study in Moral Theory* (South Bend: University of Notre Bend Press: 0268035040).

surrender to the Russians, total thermonuclear war, and his preferred policy.[33] To the extent that there is no grave disagreement about what the good is and what the ends are, control is exercised not by the one who chooses the ends but rather the one who chooses how the means are evaluated.

It is still not completely clear to me what Macintyre's root objection to economics in particular and "managerialism" more generally is. The possibilities are:

- We economists say "our technical expertise tells you that *if* you do X the effects will be Y" when we should say "you need to do X".

- We economists say "our technical expertise tells you that *if* you do X the effects will be Y", but we do so because we hold to moral values Z that we do not express, and are in fact harmful.

- When we say "our technical expertise tells you that *if* you do X the effects will be Y" we refuse to stake an explicit claim as to what the moral order inscribed in the firmament is, and so we encourage nihilism by teaching not how to reach *the* good but how to reach whatever you take to be your good.

[33] Told to me by my grandfather Earl H. DeLong, a one-time protégé of Richard Helms at the CIA.

It is clear to me that John Maynard Keynes believed in second of these objections: that economics was good for the body but taught moral values that were bad for the soul, yet in a world as poor as the world Keynes saw the needs of the body took precedence. When the world becomes rich, Keynes wrote:

> We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues.
>
> We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession—as distinguished from the love of money as a means to the enjoyments and realities of life—will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease. All kinds of social customs and economic practices, affecting the distribution of wealth and of economic rewards and penalties, which we now maintain at all costs, however distasteful and unjust they may be in themselves, because they are tremendously useful in promoting the accumulation of capital, we shall then be free, at last, to discard...[34]

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[34] http://amzn.to/1SDpZpJ John Maynard Keynes (1930), "Economic Possibilities for Our Grandchildren", published in John Maynard Keynes (1931), *Essays in Persuasion* (London: Macmillan: 1169831974), pp. 358-373.

Briefly detouring into anti-semitism:

> Perhaps it is not an accident that the race which did most to bring the promise of immortality into the heart and essence of our religions has also done most for the principle of compound interest and particularly loves this most purposive of human institutions.

And then calling for, someday, Kingdom Come, a rejection of “managerialism” and of economics as thorough as Macintyre could wish for:

> I see us free, therefore, to return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. We shall once more value ends above means and prefer the good to the useful. We shall honour those who can teach us how to pluck the hour and the day virtuously and well, the delightful people who are capable of taking direct enjoyment in things, the lilies of the field who toil not, neither do they spin.
>
> But beware!
>
> The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to every one that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.

From this viewpoint, the fundamental difference between Keynes, at least in his "Economic Possibilities for Our Grandchildren", and Macintyre is that Keynes believes that the Kingdom is still a century off, while Macintyre believes that the Kingdom is at hand.

C. Leon Trotsky and St. Benedict

But I believe that we can go further. Macintyre, at least in his *After Virtue* mode, believes that good civilization are ones with moral consensus led by prophets, rather than ones with moral confusion managered by managers. It Macintyre's belief that we should hope for a civilization led by Trotskys (less preferred) or St. Benedicts (more preferred), but in event either is to be preferred to managerial Keyneses.

If you step back, however, and inquire into the content of the this-world secular ideologies of the Trotskys, it then becomes very difficult to prefer the prophetic Trotskys to the managerial Keyneses. Trotsky's gospel, it turns out, is in reality little more than a *managerialist* gospel.

Trotsky says that History speaking through Marx and him knows how to build a Communist utopia. What is a Communist utopia? It is a society in which humans pull together and coordinate their activities. It is a society in which people are free to do what they want, within reason of what is not destructive for the community. It is a society in which people are prosperous: well-fed, well-clothed, well-housed, and well-entertained. Trotsky's gospel is that Keynes's market economy is incapable of even approaching such a utopia, while Marx and History have together told him how to accomplish it.

And here we have to bring in history: the regimes that accepted versions of Trotsky's gospel in the twentieth century and tried to implement it range from Pol Pot's to Fidel Castro's, with Stalin's and Mao's regimes not the worst, and something like Erich Honeker's Stasi-spies-on-everyone East Germany close to the best.

The whole point of saying that you would prefer Trotsky to Keynes is that Trotsky has a gospel which, if not true, is true enough to hold society together in moral consensus and produce a modicum of prosperity. But what if Keynes's managerialism does better at fulfilling what Trotsky claims will be the accomplishments of Trotsky's gospel better than Trotsky does? It does. We can see that Keynes was totally correct in wanting to reduce the influence of a Trotsky in the public square, because a Trotsky's ideas about good organization of the economy were seen immediately by Keynes as and turned out to be a horrible disaster, even from the perspective of a Trotsky's values--especially from the perspective of Trotsky's values.

In a similar fashion, much the same conclusions follow if you step back and inquire into the content of the other-worldly gospels of the St. Benedicts. Their lodestones swing from following the ethical teachings of Rabbi Yeshua of Nazareth to worshipping the Anointed Λόγος that is of a higher order of reality than we, with a certain tension between them. But when Rabbi Yeshua spoke of what the Anointed Λόγος commanded His followers to do in this world, His followers were commanded to successfully attain managerial ends:

> Then shall the king say to them that shall be on his right hand: Come, ye blessed of my Father, possess you the kingdom prepared for you from the foundation of the world. For I was hungry, and you gave me to eat; I was thirsty, and you gave me to drink; I was a stranger, and you took me in: Naked, and you covered me: sick, and you visited me: I was in prison, and you came to me.
>
> Then shall the just answer him, saying: Lord, when did we see thee hungry, and fed thee; thirsty, and gave thee drink? And when did we see thee a stranger, and took thee in? or naked, and covered thee? Or when did we see thee sick or in prison, and came to thee? And the king answering, shall say to them: Amen I say to you, as long as you did it to one of these my least brethren, you did it to me.[35]

That is a very powerful statement that what is sought after is successful managerialism—a successful managerialism

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[35] Matthew 25:31 ff.

with a preferential option for the poor: one that feeds the hungry, clothes the naked, heals the sick, welcomes the immigrant, and visits the imprisoned. Right ritual, right moral orientation, right faith seem to be nowhere—at least in this part of Matthew.[36]

IV. We Dwell Not in the Republic of Plato But in the Sewer of Romulus

In the last days before the coming of the Roman Empire, Marcus Tullius Cicero in Rome wrote to his best friend and best correspondent Titus Pomponius Atticus in Athens:

> You cannot love our dear [Marcus Porcius] Cato any more than I do; but the man—although employing the finest mind and possessing the greatest trustworthiness—sometimes harms the Republic. He speaks as if we were in the Republic of Plato, and not among the filth of Romulus...[37]

Whatever you may think about economists' desires to use their technical and technocratic expertise to reduce the

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[36] http://www.cnn.com/2015/01/19/living/pope-said-what/ Or, rather, faith is to be met on the road one then walks. Cf. Daniel Burke (2015), "The Pope Said What?!" CNN (January 19).

[37] https://books.google.com/books?id=anMtAAAAYAAJ&pg=PA119&lpg=PA119 Marcus Tullius Cicero (60 BCE), "To Atticus, in Greece, on His Way to Rome", Epistulae ad Atticum 2.1.3

influence of both the Trotskys and the St. Benedicts in the public square, there is the prior question of whether here and now—in this fallen sublunary sphere, among the filth of Romulus—they have and deploy any proper technical and technocratic expertise at all. And we seem to gain a new example of this every week.

The week of the conference at Notre Dame, the example was provided by Carmen Reinhart and Kenneth Rogoff[38]—brilliant, hard-working economists both, from whom I have learned immense amounts.Rogoff's depth of thought and breadth of knowledge about how countries act and how economies respond in the arena of the international monetary system is a global treasure. Reinhart's breadth and depth of knowledge about how governments have issued, financed, amortized, paid off, or not paid off their debts over the past two centuries is the greatest in the world.

However, they believed that the best path forward for the developed economies—the U.S., Germany, Britain, and Japan—wss for them to shrink their government deficits quickly and quickly halt the accumulation of and begin to pay down government debt. My faction, by contrast, believed that the best path forward for these economies was

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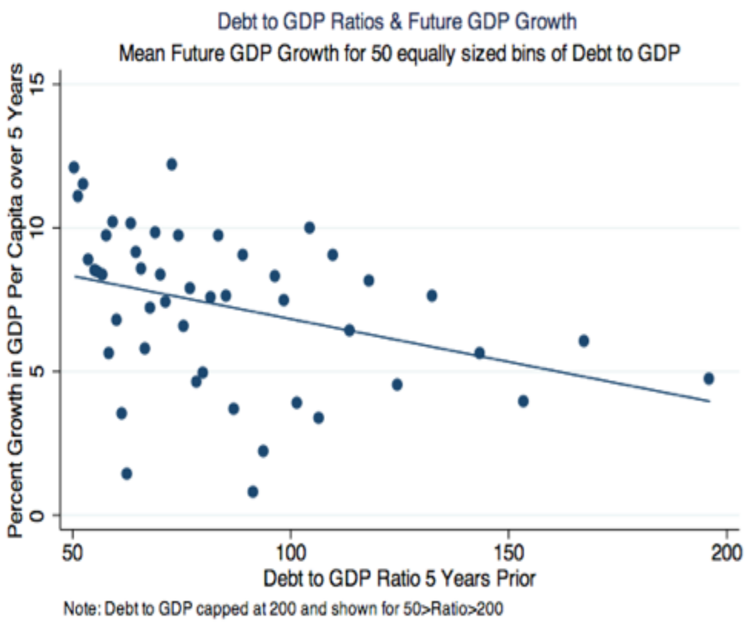
[38] http://www.nber.org/papers/w15639 Carmen Reinhart and Kenneth Rogoff (2010), "Growth in a Time of Debt" (Cambridge: NBER Working Paper 15639)

for them to expand their government deficits now and let the debt grow until either economies recover to normal



levels of employment or until interest rates begin to rise significantly.

Why does my faction disagree with them? Let me, first, rely on the graph above that is the product of in-progress research by Berkeley graduate student Owen Zidar,[39] plotting how economic growth in different industrialized countries in different eras has varied along with the amount of government debt that they had previously accumulated. And let me give the explanation of why I disagree with Reinhart and Rogoff that I have been giving at seminars around the country this winter and spring:

> The argument [for fiscal contraction and against fiscal expansion in the short run] is now: never mind why, the costs of debt accumulation are very high. This is the argument made by Reinhart, Reinhart, and Rogoff: when your debt to annual GDP ratio rises above 90%, your growth tends to be slow.
>
> This is the most live argument today. So let me nibble away at it. And let me start by presenting the RRR case in the form of Owen Zidar's graph.
>
> First: note well: no cliff at 90%.
>
> Second, RRR present a correlation—not a causal mechanism, and not a properly-instrumented regression. There argument is a claim that high debt-to-GDP and slow subsequent growth go together, without answering the question of which way causation runs. Let us answer that question.
>
> The third thing to note is how small the correlation is. Suppose that we consider two cases: a multiplier of 1.5 and a multiplier of 2.5, both with a marginal tax

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[39] http://delong.typepad.com/debt-to-gdp-ratio-and-future-economic-growth.pdf "Owen Zidar’s work, reported in J. Bradford Delong, Laura Tyson, and Owen Zidar (2013), “Debt to GDP Ratios & Future Economic Growth” (March 8).

share of 1/3. Suppose the growth-depressing effect lasts for 10 years. Suppose that all of the correlation is causation running from high debt to slower future growth. And suppose that we boost government spending by 2% of GDP this year in the first case. Output this year then goes up by 3% of GDP. Debt goes up by 1% of GDP taking account of higher tax collections. This higher debt then reduces growth by... wait for it... 0.006% points per year. After 10 years GDP is lower than it would otherwise have been by 0.06%. 3% higher GDP this year and slower growth that leads to GDP lower by 0.06% in a decade.

And this is supposed to be an argument against expansionary fiscal policy right now?

The 2.5 multiplier case is more so. Spend 2% of GDP over each of the next three years. Collect 15% of a year's extra output in the short run. Taking account of higher tax revenues, debt goes up by 1% of GDP and we have the same ten-year depressing effect of 0.06% of GDP. 15% now. -0.06% in a decade. The first would be temporary, the second is permanent, but even so the costs are much less than the benefits as long as the economy is still at the zero lower bound.

And this isn't the graph that you were looking for.

You want the causal graph. That, worldwide, growth is slow for other reasons when debt is high for other reasons or where debt is high for other reasons is in this graph, and should not be. Control for country and era effects and Owen reports that the -0.06% becomes -0.03%. As Larry Summers never tires of pointing out, (a) debt-to-annual-GDP ratio has a numerator and a denominator, and (b) sometimes high-debt comes with high interest rates and we expect that to slow growth but that is not relevant to

> the North Atlantic right now. If the ratio is high because of the denominator, causation is already running the other way. We want to focus on cases of high debt and low interest rates. Do those two things and we are down to a -0.01% coefficient.
>
> We are supposed to be scared of a government-spending program of between 2% and 6% of a year's GDP because we see a causal mechanism at work that would also lower GDP in a decade by 0.01% of GDP? That does not seem to me to compute.
>
> Now I have been nibbling the RRR result down. Presumably they are trying to see if it can legitimately be pushed up. This will be interesting to watch over the next several years, because RRR is the heart of the pro-austerity case right now.[40]

Now that is as concise and simple an explanation of why I disagree with Reinhart and Rogoff as I can give.

If you are not a professional economist and have managed to understand that, I salute you.

They disagree with me: First, they started with different prior beliefs—different assumptions about the relative weight to be given to different scenarios and the relative risks of different courses of action that lead them to read the evidence differently. Second, they made some data processing errors—although those are a relatively minor

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[40] http://delong.typepad.com/sdj/2013/04/understanding-the-adversaries-umkc-seminar-talk-slides-330-500-pm-april-5-2013.html J. Bradford DeLong (2013), "Understanding the Adversaries"

component of our differences—and are now dug in, anchored to the positions they originally took, and rationalizing that the data processing errors do not change the qualitative shape of the picture. Third, they have made different weighting decisions as to how to handle the data.

Is Owen Zidar putting his thumb on the scales, and weighting the data because he knows that the effects of high debt in reducing growth are small? I don't think so: his weighting scheme is simple, and he is too young to be dug in and have a dog in this fight. But I am, perhaps, not the best judge.

But when we venture out of data collection and statistics and the academy into policy advocacy in the public square that the differences become very large indeed.

Matthew O'Brien quotes Senator Tom Coburn reports on Reinhart and Rogoff's briefing of the Republican Congressional Caucus in April 2011:

> Johnny Isakson, a Republican from Georgia and always a gentleman, stood up to ask his question: "Do we need to act this year? Is it better to act quickly?"
>
> "Absolutely," Rogoff said. "Not acting moves the risk closer," he explained, because every year of not acting adds another year of debt accumulation. "You have very few levers at this point," he warned us.

> Reinhart echoed Conrad's point and explained that countries rarely pass the 90 percent debt-to-GDP tipping point precisely because it is dangerous to let that much debt accumulate. She said, "If it is not risky to hit the 90 percent threshold, we would expect a higher incidence."[41]

I think we have by far the better of the argument. Yet it is very clear that even today Reinhart and Rogoff—and allied points by economists like Alesina and Giavazzi, where I also think we have the better of the argument by far—have had a much greater impact on the public debate than my side has.[42]

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[41] http://qz.com/75117/how-influential-was-the-study-warning-high-debt-kills-growth/ Tim Fernholz (2013), "How influential was the Rogoff-Reinhart study warning that high debt kills growth?" *Quartz* (April 16).

[42] <a href="http://www.nber.org/chapters/c10973 See Francesco Giavazzi and Marco Pagano (1990), "Can Severe Fiscal Contractions Be Expansionary? Tales of Two Small European Countries", in Olivier Jean Blanchard and Stanley Fischer, eds. (1990), NBER Macroeconomics Annual 1990 (Cambridge: MIT Press: 0262023122), pp. 75 – 122; Alberto F. Alesina and Silvia Ardagna (2009), "Large Changes in Fiscal Policy: Taxes Versus Spending" (Cambridge, MA: NBER Working Paper 15438) http://www.nber.org/papers/w15438; Carmen M. Reinhart, Vincent R. Reinhart, and Kenneth S. Rogoff (2012), "Debt Overhangs: Past and Present" (Cambridge, MA: NBER Working Paper 18015) http://www.nber.org/papers/w18015; Alberto Alesina, Carlo Favero, and Francesco Giavazzi (2012), "The Output Effect of Fiscal Consolidations" (Cambridge, MA: NBER Working Paper 18336) http://www.nber.org/papers/w18336.

Thus the key problem of knowledge. Since technical details matter, conclusions must be taken by non-economists on faith in economists' expertise, by watching the development of a near-consensus of economists, and by consonance with observers' overall world-view. But because political and moral commitments shape how we economists view the evidence, we economists will never reach conclusions with a near-consensus—even putting to one side those economists who trim their sails out of an unwarranted and excessive lust for high federal office. And note that neither Carmen Reinhart nor Kenneth Rogoff have such a lust.

We do not live in the Republic of Plato. We live in the Sewer of Romulus. In this fallen sublunary sphere, the gap between what economists should do and be and what they actually are and do is distressingly large, and unclosable.

And this leaves you—those of you who must listen to we economists when we speak as public intellectuals in the public square—with a substantial problem.

V. Should You Pay Attention to Economists as Public Intellectuals in the Public Square?

You have to. You have no choice. You all have to listen. But you have nearly no ability to evaluate what you hear.

When we don't reach a near-consensus, then Heaven help you.

I cannot.[43]

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[43] http://amzn.to/1SDcKW0 Plato, *Republic* 5.473d (Jowett): "Until philosophers are kings, or the kings and princes of this world have the spirit and power of philosophy, and political greatness and wisdom meet in one, and those commoner natures who pursue either to the exclusion of the other are compelled to stand aside, cities will never have rest from their evils—nor the human race, as I believe—and then only will this our State have a possibility of life and behold the light of day. Such was the thought, my dear Glaukon, which I would fain have uttered if it had not seemed too extravagant; for to be convinced that in no other State can there be happiness private or public is indeed a hard thing…"

WHAT CAN BE DONE TO IMPROVE THE EPISTEME OF ECONOMICS?

I think this is needed:

INET: *Education Initiative*: "We are thrilled that you are joining us at the Berkeley Spring 2017 Education Convening, Friday, April 28th 9am-5pm Blum Hall, B100 #5570, Berkeley, CA 94720-5570... https://www.ineteconomics.org/education/curricula-modules/education-initiative

...Sign up here: https://fs24.formsite.com/inet/form97/index.html or email aoe@ineteconomics.org...

I strongly share INET's view that things have gone horribly wrong, and that it is important to listen, learn, and brainstorm about how to improve economics education. Let me just note six straws in the wind:

1. **The macro-modeling discussion is wrong:** The brilliant Olivier Blanchard https://piie.com/blogs/realtime-economic-issues-watch/need-least-five-classes-macro-models: "The current core... RBC (real business cycle) structure [model] with one main distortion, nominal rigidities, seems too much at odds with reality.... Both the Euler equation for

consumers and the pricing equation for price-setters seem to imply, in combination with rational expectations, much too forward-lookingness.... The core model must have nominal rigidities, bounded rationality and limited horizons, incomplete markets and the role of debt..."

2 **The macro-finance discussion is wrong:** The efficient market hypothesis (EMH) claimed that movements in stock indexes were driven either by (a) changing rational expectations of future cash flows or by (b) changing rational expectations of interest rates on investment-grade bonds, so that expected returns were either (a) unchanged or (b) moved roughly one-for-one with returns on investment grade bonds. That claim lies in total shreds. Movements in stock indexes have either no utility-theoretic rationale at all or must be ascribed to huge and rapid changes in the curvature of investors' utility functions. Yet Robert Lucas claims that the EMH is perfect, perfect he tells us http://www.economist.com/node/14165405: "Fama tested the predictions of the EMH.... These tests could have come out either way, but they came out very favourably.... A flood of criticism which has served mainly to confirm the accuracy of the hypothesis.... Exceptions and 'anomalies' [are]... for the purposes of macroeconomic analysis and forecasting... too small to matter..."

3 **The challenge posed by the 2007-9 financial crisis is too-often ignored:** Tom Sargent https://www.minneapolisfed.org/publications/the-region/interview-with-thomas-sargent: "I was at Princeton then.... There were interesting discussions of many aspects of the financial crisis. But the sense was surely not that modern macro needed to be reconstructed.... Seminar participants were in the business of using the tools of modern macro, especially rational expectations theorizing, to shed light on the financial crisis..."

4 **What smart economists have to say about policy is too-oftendismissed:** Then-Treasury Secretary Tim Geithner, according to Zach Goldfarb https://www.washingtonpost.com/blogs/wonkblog/post/geithner-stimulus-is-sugar-for-the-economy/2011/05/19/AGz9JvLH_blog.html: "The economic team went round and round. Geithner would hold his views close, but occasionally he would get frustrated. Once, as [Christina] Romer pressed for more stimulus spending, Geithner snapped. Stimulus, he told Romer, was 'sugar', and its effect was fleeting. The administration, he urged, needed to focus on long-term economic growth, and the first step was reining in the debt.... In the end, Obama signed into law only a relatively modest $13 billion jobs program, much less than what was

favored by Romer and many other economists in the administration..."

5 **The competitive model has too great a hold**: "Brad, you're the only person I've ever heard say that Card-Krueger changed their mind on how much market power there is in the labor market..."

6 **The problem is of very long standing indeed:** John Maynard Keynes (1926) https://www.panarchy.org/keynes/laissezfaire.1926.html: "Some of the most important work of Alfred Marshall-to take one instance-was directed to the elucidation of the leading cases in which private interest and social interest are not harmonious. Nevertheless, the guarded and undogmatic attitude of the best economists has not prevailed against the general opinion that an individualistic laissez-faire is both what they ought to teach and what in fact they do teach..."

So:
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...Sign up here: https://fs24.formsite.com/inet/form97/index.html or email aoe@ineteconomics.org...

We are convening students and professors who are interested in broadening economics education.... Our goals are to learn more about prevailing needs, pool and share existing pluralist curriculums, and brainstorm the architecture and direction of concrete future endeavors in post-secondary economics education. The economics discipline is in disrepair: publicly discredited, theoretically narrow, and academically constrained. Economics education reflects these flaws.... INET is gathering people in the academic economics community in convenings across the U.S. to better understand the challenges and resources faced by those working to reinvigorate the economics discipline.
Invitations are extended to: pre- and non-tenure faculty, including adjuncts; undergraduate and graduate students; experienced faculty actively engaged in pluralist education.... The convenings will be group-led, facilitated, full-day workshops.... These convenings are an exploratory process for INET. We have not made any funding commitments in this field beyond this series of convenings.... We do not view these meetings primarily as places to present funding proposals, but... to share experiences and ideas.
Next steps for INET in education will be announced following these convenings in May 2017....
As the day is long and the goal is ambitious, we will devote part of our morning to building a community agreement together. In anticipation of this, we invite you all to

consider what makes a conversation comfortable and supportive for you (bonus points if you can frame it affirmatively.... This is not a suitable gathering for funding proposals. Chatham House Rules....

- 9–10am: Breakfast & Coming Together
- 10–11am: Constraints: Barriers to Economic Education
- 11am–12pm: Resources: Existing Tools for Economics Education
- 12–1pm: Lunch
- 1–2pm: Matching: Fitting Resources to Constraints
- 2–3pm: Gaps: Identifying Remaining Needs
- 3-3:30pm: Coffee Break
- 3:30–5pm: Future: Identifying Avenues of Change
- 5-6pm: Dinner

FOUCAULTALTHUSSERDERRIDA JAMESON

Hoisted from Ten Years Ago: FOUCAULTALTHUSSERDERRIDAJAMESON http://www.bradford-delong.com/2007/06/foucaultalthuss.html: In comments and elsewhere, those with a sharp distaste for cultural studies "theory" in moral philosophy see it as one undifferentiated reactionary mass: FoucaultAlthusserDerridaJameson.

I want to draw some distinctions:

(1) Fredric Jameson: A number of very interesting hypotheses about the relationship between material life, culture, and ideology in the age after the age of mass communication--hypotheses that may be true and may be false, but that are certainly worth investigating.

(2) Jacques Derrida: I'm not sure there's anything there: he traps himself into a nihilistic philosophical box, which he gets out of only by declaring his arguments immune to the destabilizations he performs on the arguments of others.

(3) Louis Althusser: There's something there, but (a) it's reductionist, simplistic, and largely wrong; and (b) the violation of discourse ethics in calling it an interpretation of Marx is so gross and grotesque to compel the conclusion that he was either always a con man or always a madman.

(4) Michel Foucault: The bill of indictment against Foucault is:

1 He was a naive enthusiast for a bunch of nasty Iranian terrorists and thugs.

2 He was French.

3 He trusted sources he shouldn't have trusted.

4 There's nothing useful you can get out of Foucault that you can't get out of John Grenville Agard Pocock, Quentin Skinner, and a creative misreading of Thomas Kuhn's Structure of Scientific Revolutions.

I agree with criticisms 1, 2, and 3. 4 may be true as well, but I came to these ideas not through Pocock and Skinner but through Foucault and Keith Tribe[1].

Therefore I openly avow myself the pupil of that mighty thinker Michel Foucault, and even here and there coquette with the modes of expression peculiar to him. But at least for my purposes his useful ideas suffer a certain mystification in his hands: he presents them upside-down, as it were. They must be turned right side up again, if you would discover the rational kernel within the mystical shell.

[1] J. Bradford DeLong (forthcoming 2008), "Two Months Before the Mast of Post-Modernism," in John Holbo, ed., Framing Theory's Empire (West Lafayette, IN: Parlor Press for Glassbead Books) http://delong.typepad.com/sdj/2005/07/two_months_befo.html; and J. Bradford DeLong (1986), "Senior's `Last Hour': A Suggested Resolution of a Famous Blunder," History of Political Economy 18: 2 (Summer), pp. 325-333 http://www.j-bradford-delong.net/movable_type/archives/000585.htm.