

On Jeff Madrick: How Mainstream Economic Thinking Imperils America

J. Bradford DeLong
U.C. Berkeley

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Jeff Madrick's Seven Bad Ideas

1. The "Invisible Hand"
2. Say's Law
3. Friedman's Folly: Government's Limited Social Role
4. Low Inflation Is All That Matters
5. "There Are No Bubbles"
6. Globalization Is Always Good
7. Economics Is a Science

In Madrick's Introduction

- Praised in the Introduction: John Maynard Keynes, Dani Rodrik
- Criticized in the Introduction:
 1. Adam Smith--no comment necessary...
 2. Olivier Blanchard--the *de facto* leader of the Sixth International: on the left of the spectrum of policymakers...
 3. Larry Summers--principal advocate of the Keynesian expansionary-fiscal solution to our troubles...
 4. Milton Friedman--when he was alive, the most powerful advocate of unlimited quantitative easing...
 5. Bob Rubin--on his watch big banks were bailed-in during financial crises, not bailed-out...
 6. Ben Bernanke--most left-wing central banker we had (although I will concede his attachment to 2%/year inflation target, and failure to reach it, are huge minuses)...
 7. Robert Lucas--underbriefed and destructive...

Reading Along...

- Madrick on Christina Romer:
 - “In a piece she wrote for The New York Times criticizing an increase in the minimum wage, Christina Romer, the former Obama adviser and considered by many to be a political liberal, implicitly made this same oversimplified assumption that workers usually get what they deserve. This is an example of Friedman’s broad influence...”
- Romer:
 1. We have better policies available: expand the EITC is better targeted
 2. For the long-run, universal kindergarten and pre-K have more bang for the buck
 3. And these are expansionary fiscal policy--spending money gives a macroeconomic boost as well
 4. But if the choice is for a higher minimum wage or nothing, I'm for a higher minimum wage...

Food for Thought

- Of these 8 whom Madrick criticizes...
- ...Somewhere between 5 and 7 are to the left of current North Atlantic policymakers
- Not excluding Obama

PFoJ vs. JPF, Perhaps?



- A little misplaced ire, I think...
- But I don't want to go there...
- I would rather go to...

I See Four Yawning Gulfs

- Between:
 - the economic policies that those whom I regard as “serious” economists are advocating, and
 - those that are being implemented...
- Between:
 - what economics says, and
 - what right-of-center economists are telling their political masters it says...
- Between:
 - what economics says, and
 - what economics should say...
- Between:
 - my “inside” view of what I think economics says, and
 - Jeff Madrick’s “outside” view of what he thinks economics says...

As I See It

- The problem of where economics starts
- The problem of the decreasing relevance of the Smithian model
 - The stringent requirements for market effectiveness
- Current policy and current tasks

Where Economics Starts

- Economics starts from the presumption:
 - that market success is the benchmark, and
 - that market failure is anomalous
- It ought to start from the presumption:
 - that market construction is difficult
- It ought to have:
 - a grammar of other forms of organization—
 - command, bureaucracy, charity, cooperative, regulated monopoly, yardsticks, etc.—
 - and where they succeed and where they fail

Decreasing Relevance of the Smithian Model

- We have a great deal of economic life in sectors where we know the market will not work well, and
- These sectors will only grow in relative importance:
 1. Pensions
 2. Health-care finance
 3. Education
 4. Infrastructure
 5. Research and development
 6. Information goods more generally

The Stringent Requirements for Market Effectiveness

- Here are seven requirements:
 1. Distribution of wealth corresponding to fairness and utility
 2. Aggregate demand matched to potential supply
 3. Competition
 4. Calculation
 5. Rivalry
 6. Excludability
 7. Information symmetries
- And, no, a night-watchman, a court, and cutting property rights at the joints will not get us there

Current Policy and Current Tasks

- Policy is far to the right of even where the really-existing economics profession is
 - At least, where the "serious" piece of it, in an intellectual sense, is
 - And it is not to the smart right either
- Why?
- How to fix it?
 - Books like Jeff's, of course, but what else?
- Two tasks:
 - Move the "serious" economics profession
 - Move policymaking to the "serious" economics profession
 - Both seem of equal importance and difficulty