

CLOSING LECTURE - GOOD ECONOMICS FOR HARDER TIMES

Esther Duflo explained how the COVID-19 crisis might provide lessons for economists.

She first described the dire status of economists in society. While people worry mostly about economic issues, they do not trust economists. Economists are often perceived as defenders of the status quo and blamed for their poor prediction records. According to a poll conducted shortly after Brexit, people trust weather forecaster twice as much as they trust economists.

Yet economists are keen to engage and have much to offer to the public debate. Esther Duflo proposed five lessons for economists to reflect on.

Lesson 1: Government legitimacy

In the last decades, governments have been seen as more of a problem than the solution. Yet COVID-19 has shown why we need government: to enforce rules, to distribute economic resources, etc. Now could be a make or break moment. Where governments are successful, they can regain their legitimacy; but where they fail, we could see even distrust.

Lesson 2: Financial incentives are overrated.

Social protection mechanisms are often withheld or made unpleasant to access for fear that public help will disincentivise people from working. This is a myth that is not supported by evidence. If people are not working it is because they can't.

Lesson 3: The economy is stickier than we thought

We assume that when people lose their job, they can move location or sector. In fact, mobility is low and has declined significantly since 1948. COVID-19 has enhanced this problem, migration has plummeted.

Lesson 4: Racial injustice

Evidence shows that personal preferences are largely conditioned by experience. This implies that racism is not incurable.

Lesson 5: Dignity matters

COVID-19 was preceded by another pandemic: deaths of despair. Many people feel they have lost a sense of social status and professional pride and asking for help carries an enormous stigma. We need to put dignity back at the center of the social protection system. The COVID-19 crisis exemplifies how you can have a social security system with dignity. Indeed, the need for help was not driven by any fault of their own. As such, it was dignity preserving.

Q&A

Empirical vs theoretical economics

The economics profession is changing and empirical, micro, studies are on the rise. Sadly however, much of the research, in all of its rich complexity, rarely makes it to the public.

Empirical economists are not the most active on Twitter, there is a reluctance to promote findings when they don't align with the doxa. The economic profession has moved left, but the public does not know it. A problem is that a significant part of the profession does not speak up.

The importance of profit maximization principles

Economists put profit maximization at the centre of their models. Other considerations need to be integrated, such as measures of well-being. The focus on GDP for competition between nation has been a disaster, first for the environment and second because we don't know how to affect GDP.

Bias in favour of surprising results

Esther Duflo does not believe that there is a bias in favour of surprising results in economics (as might be the case, e.g., in psychology). On the contrary the profession is very conservative. The vast majority of what gets published in economics doesn't surprise anybody.

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