

"Economics Now Points Away From the Laissez-Faire Approach"

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Columbia professor Suresh Naidu on Economics for Inclusive Prosperity, the new initiative he launched with Dani Rodrik and Gabriel Zucman, and why he believes economics shouldn't be conflated with neoliberalism.

Economics is in the midst of a major, potentially transformative shift. Over the span of a few years, economic scholars have created a substantial (and growing) body of research that traces the contours of our era's defining challenges: extreme inequality and wage stagnation, growing concentrations of wealth and economic power, the effects of rising market power on both consumers and workers, and the connection between globalization and the rise of nativist politics throughout the Western world. Spurred partly



Suresh Naidu

by the 2008 financial crisis, a profound process of self-examination has pushed economists to reconsider deep-seated notions about how markets and corporations behave, as well as to begin a long (and much-needed) process of confronting the gender and racial gaps within the discipline itself.

One of the initiatives born as a result of this "sea change"—as Yale economist Fiona Scott Morton calls it—is Economics for Inclusive Prosperity (or EfIP), recently launched by Dani Rodrik (Harvard University), Gabriel Zucman (UC Berkeley), and Suresh Naidu (Columbia University). "Economics is in a state of creative ferment that is often invisible to outsiders," they wrote in an explosive article published in the *Boston Review*. "While the sociology of the profession—career incentives, norms, socialization patterns—often militates against engagement with the policy world, especially by younger academic economists, a sense of public responsibility is bringing people into the fray."

EfIP, they explained, was born out of a sense that the increasingly-empirical bent of economics pushes the field away from the belief that markets work best without any regulation. It is a loosely-affiliated network of top academic economists meant "to provide an overall vision for economic policy that stands as a genuine alternative to the market fundamentalism that is often—and wrongly—identified with economics." EfIP has already put forth a set of policy proposals that cover banking regulation, corporate taxes, campaign finance, trade agreements, education, and monopsony power. In addition, the three's *Boston Review* piece has created a lively and fascinating debate over what "economics after neoliberalism" could mean.

In order to learn more about the new initiative, we recently sat down with Naidu, an associate professor in economics and international and public affairs at Columbia's School of International and Public Affairs. The following interview has been edited and condensed for clarity and length:

Q: What is EfIP and why did you launch it?

It's an academic network of economists willing to comment on and develop policy proposals from a definitely progressive vein, but still ideologically elastic. We thought it was worthwhile to build a formation that puts together what's best in economics and develop a policy program out of that. That includes all the recent things that have happened in macro finance, recent work in IO, as well as recent work in labor economics.

The background for this is that we were jointly at this conference—Dani, Gabriel, and I—at the Center for Advanced Study in the Behavioral Sciences (CASBS) at Stanford, where there were all of these intellectual historians and sociologists. And there was just this hostility towards economics as being responsible for all of the problems of neoliberalism. The three of us were just looking at people thinking, "This doesn't bear any resemblance to the economics that we see in the academic seminars, to the work we've been doing, to the work we see graduate students doing."

The idea is that once you take what is literally at the cutting-edge of research in economics and put it together, you actually have a reasonably egalitarian policy platform.

Q: What comes first, though—the research or the progressive framework?

We think of them as complementary. Recent research pushes economics away from the laissez-faire doctrine that says the obvious default state is to have a deregulated market that will just sort itself out without government intervention. A lot of both the empirical and theoretical research coming out today is really pushing against that. Maybe this has something to do with the fact that lots of things that were hard for economists to handle in the 1960s and 1970s—the importance of increasing returns, for instance—have become pervasive.

Whatever it is, economics now points away from the laissez-faire approach.

Q: You write that "economics is in a state of creative ferment" and that this creative ferment "is often invisible to outsiders." What drives this change?

I think part of it has to do with the long-term trend toward economics being a much more empirical discipline, what with the granularity of datasets, the credibility of new econometric methods, and the importance of research design.

I wouldn't say it's been a sudden change. It correlated with the slow accumulation of work in economics. When you look at the economy as it actually works, not as you deduce that it works, you find something that's really different from the textbook models.

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Q: Beyond the evolution of empirical methods, did the financial crisis also play a role in this?

Absolutely. I think the financial crisis was a little bit of a shock to the business as usual in economics. There was definitely this sense that we're now allowed to look at a much broader range of things which are relevant for understanding the economy.

But I wouldn't attribute all of this to the financial crisis. Economic history, for example, has been experiencing this kind of renaissance over the 2000s.

Q: Sure, but the financial crisis set in motion a process of introspection, didn't it?

I feel like it's been an undercurrent for a long time. Maybe it's now that people are willing to go public.

Then again, there are things like the Harvard and Columbia graduate student unionization efforts, which a whole bunch of economics graduate students were involved in. If you had told me when I was in grad school that economics grad students would be excited about unionization, I would be like "No way."

I agree with you that something is different. It might be a general "Millennials are left-wing." I know for a fact that some of my grad students who were research assistants at the Federal Reserve all became pro-Bernie [Sanders] people in the '15-'16 election cycle. That's surprising to me that you could see this very left-wing politics alive in very traditional economic circles. So something's definitely changed.

Q: Perhaps it's that many of the massive problems we face today, from extreme inequality to massive concentrations of wealth and power, to our failure to address climate change, had or have some economic reasoning undergirding them. Even Tucker Carlson is now railing on Fox News that capitalism as it has been practiced in the US in the past 40 years is not working for ordinary Americans.

I think that's right. One of the features of what we could probably call "neoliberalism" was this trust that markets would work. In some ways, the financial crisis was the first push [against] that. I agree with you that the increase in inequality, the political problem that's created, climate change, all of these things suggest that the economics that lets you downplay those problems is not working.

Q: Did economists downplay these problems due to ideology, or because they were captured?

[laughs] Why can't it be both?

Let me give a concrete example based on my research, which is this paper with Daniel Chen and Elliott Ash, on the effect of [George Mason University's] Manne Program in law and economics on the federal judiciary. This was this camp that was organized out of the Law and Economics Center, which is now George Mason University, which was basically a device for schooling the judiciary in economics. On the whole, the kind of economics that the judges were taught was coming much more from Armen Alchian and the likes than from, say, Orley Ashenfelter and Paul Samuelson. It definitely had a deregulatory flavor.

What we found in this paper was that judges, after they go to this program, are more likely to vote against the NLRB in judicial cases, to vote against the EPA, to vote conservatively in a variety of economic domains. That's a concrete way in which the injection of economics into the judiciary really had policy outcomes.

When you look at who's funding this, there is a whole bunch of corporations that are likely to benefit from having a federal judge on their side in various regulatory cases. Then there's a whole bunch of traditional right-wing funders that are also funding this law and economics camp. I don't know that I see a clear break between ideological funders and opportunistic capital funders.

Q: This wasn't strictly a conservative phenomenon, though. The kind of economic thinking that downplayed inequality or market power was endorsed by Republicans and Democrats alike.

The biggest impacts, we found, are in fact on Democrat-appointee judges. It's why neoliberalism is actually a useful term.

Q: As you mention in your Boston Review piece, for many today neoliberalism and economics are one and the same. What is the relationship between the two?

If we drew a Venn diagram to illustrate this, it would show that neoliberal ideas only partially intersect with ideas in economics. There is an overlap, which is that economic arguments are deployed to justify neoliberal policy positions. There's definitely been an elective affinity between a certain style of thinking about economics and a variety of deregulatory moves made inside neoliberalism that go together. Everything from international trade to antitrust to the regulation of labor markets.

Q: So how did the two become synonymous?

It's an open question. I don't know the answer to this, but I think in policy circles, the pipeline from academic economics into the public discourse has basically been captured by conservative foundations saying that economics implied a certain set of policy prescriptions, such as "Minimum wages will cost jobs." For a broader audience, what they heard coming out of economics was these broadly conservative policy positions. The image of economics wound up being those conservative policy prescriptions.

I don't think it was necessarily capture, but the pipeline of ideas that made its way into the policy circles was definitely of the neoliberal variant.

Q: Is neoliberalism the problem, or just a symptom of something larger?

I think we can be a little bit dialectical about it. You can think of neoliberalism as an ideological glue which stabilizes political coalitions that reflect underlying economic interests and lets that political coalition function and coordinate amongst themselves to implement a particular set of policies.

Q: And you don't see economists' capture as having a major role in this?

The vast bulk of economists are not involved in any of that stuff. They're doing their work and not even particularly ideological about anything, just doing their economics work and thinking about things. It's only in the economists-for-hire world that you see the corruption side of things, where people are basically getting paid to write reports about things. That creates a distorted view of the field. But those are not professional economists. It's a whole set of people that call themselves economists that work in DC and basically say that economics says things like "Mergers are generally efficient," in total contradiction with the empirical evidence.

Q: And the increasingly empirical bent of economics is enough to discredit these arguments?

Yes, absolutely.

Q: But of course, everyone claims to be empirical. Those who hold the opposite view from you would say that they're on the side of empirics, and you guys are the ones doing the purely ideological work.

Yeah, I guess everyone will say that. In a way, everyone has always said that: "Of course, what we're doing is evidence, what everyone else is doing is just pure ideology." But it is now very difficult to lie with statistics in economics.

Q: Who would you say is your audience with EfIP? Other economists? Politicians and policy makers? The general public?

It's probably the general academic public. We want them to see that this presence exists in economics and that we're alive.

Q: Sort of like a #NotAllEconomists?

Yeah, #NotAllEconomists. We also want to facilitate a conversation inside economics about policies and what could we agree on, to just throw ideas at each other and see what comes back, what people disagree with, what's criticized. To build that idea that there's a policy arena for economists, so we don't just have to talk about the identification strategy or a certain model's assumptions.

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Q: What are your immediate plans with EfIP?

Right now, I think our concrete plan is to have a conference, where we have everybody present these policy proposals, we workshop them, and then we put them together [into policy proposals].

Q: Are you accepting new proposals?

We are. If anyone's reading this, send us your policy proposals and ask to join. We don't want to be another elite club. We want lots of people joining.

Q: What about the political constraints that would inevitably stand in the way? In order to implement some of the proposals you already laid out, you first need a system that is not so captured by big business...

And a government willing to implement these policies.

Q: Exactly.

Yeah, I think that's an interesting point. We can't just pretend the political constraints will solve themselves. We need to actually design policy with political constraints in mind. That is one of the reasons I'm interested in labor unions, because they're a prerequisite for political representation that would then let you actually implement policies.

Q: So your initiative isn't so much meant to fix economics itself, but the perception of it outside the field?

Yes, absolutely. EfIP is this idea that what is the best and most true in mainstream economics points away from this laissez-faire view and towards policy ideas that are nuanced.

It's definitely the case that recent economics, at the research frontier, is quite insightful and interdisciplinary. We all believe that. We're all very much invested in economics being fun, useful, and believable. It's the pipeline into policy that has not been great. The people funding that pipeline cared about certain ideas and didn't want other ideas to be part of that pipeline. It's not that those other ideas didn't exist. I think economics, even when it was more conservative, still had more diversity of ideas inside of it than was recognized. But those ideas were not the ones getting piped into the policymaking world.

Q: Is your goal then to build a different pipeline?

Yes. That's part of what we're trying to do.

Q: Can a different pipeline be built without political power and without economic power, strictly on the merit of ideas and evidence, though?

I think part of the merit of the ideas will be reflected in the support they're able to capture and the political coalition they'll be able to sustain. Yes, I would like to think that if we can do it right, economics will have a part to play in holding together a political coalition that can win in politics.

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