

Opinion **Free Lunch**

## The power of doing economics properly

Leading scholars try to enlist the profession in the cause of progressive policy

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Martin Sandbu 7 HOURS AGO

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Free Lunch has taken a lot of interest in the economics profession's soul-searching since the financial crisis (and also in the critique of those who think mainstream economics has no soul left to find). For example, we have covered the effort at [reforming macroeconomics](#) from within, as well as [calls for a new economics](#) altogether.

Last week produced new grist for our mill when a group of US-based economists launched an [initiative](#) called "Economists for Inclusive Prosperity". Its founding membership includes world-class scholars, some of whom are well known to Free Lunch readers (for example Dani Rodrik for his [thinking about globalisation](#) and Gabriel Zucman for his [work on tax evasion](#)). The group aims to bring economics to bear on the great problems of our day – inequality, technological disruption of labour markets, globalisation and climate change – to produce concrete policy proposals that have an unspoken but definitive leftist tinge.

This is an effort at reclaiming economics for a progressive agenda. The participants' mission statement – set out in an [introductory essay](#) by Suresh Naidu, Rodrik and Zucman – makes clear that the burden is on them to convince progressives that "economics is part of the solution". To do so, they take it upon themselves to (in my words) do economics properly, or (in theirs), "consider the whole distribution of outcomes, not simply the average (the "middle class") [and] consider human prosperity broadly, including non-pecuniary sources of wellbeing, from health to climate change to political rights". The implication is of course that economists too often fail to do these things.

This is an extremely promising initiative. It already presents a collection of [10 policy briefs](#) on topics ranging from taxation and labour market reform to public services and election law; readers may want to explore their favourite topics in detail. Here I want to offer a few reflections on the overarching approach.

Naidu, Rodrik and Zucman write that "the competitive model is rarely the right benchmark for understanding the problems and suggesting solutions". This is a statement that may seem trivially

true yet is deeply consequential. For the competitive model — the stylisation of the economy in which it balances itself to some sort of efficient equilibrium without intervention — hogs an excessive part of the limelight when economic arguments feature on the political stage. What James Kwak [has called “economism”](#) — a oversimplified version of introductory economic analysis unleashed on complex policy questions — is not just ignorant but dangerous because it can sound plausible even when it gets things badly wrong (Kwak’s own example is the minimum wage, and the struggle to get acceptance for the possibility that raising it may not hurt employment). Improving the application of economics to policy can only do both fields good.

And not just good. Poor applied economics leads to lost prosperity. The authors continue: “Throughout the proposals is the sense that economies are operating well inside the justice-efficiency frontier, and that there are numerous policy ‘free-lunches’ that could push us towards an economy that is morally better without sacrificing (and indeed possibly enhancing) prosperity.” This is a pivotal conceptual move, which can liberate the policy debate from the rhetorical shackles of difficult trade-offs when such trade-offs don’t in fact have to be made. The supposed dilemma between growth and inequality — [rather disproved by the Nordic experience](#) — is a case in point.

And if economic outcomes are not fully determined by the iron law of supply and demand in perfectly competitive conditions, it is important to ask what else shapes them. The founders of the new initiative “share the theme of how power asymmetries shape our contemporary economy. Many economists dismiss the role of power because they think it cannot be studied rigorously or belongs outside economics.”

I want to draw out one implication that I don’t see the authors themselves have done. The fact that economics can be used more sensibly, and that the failure to do so leaves “free lunches” on the table, means, almost by definition, that policymakers have not tried all they can do to address, counteract or remedy the harms that have been brought by the past four decades of economic change. That, as I have [argued with Rodrik](#) in the past, undermines the notion that globalisation has rendered national governments powerless to govern economies in their citizens’ best interests. Even if this were true, we could hardly know until governments had tried all the means available to them. As the Economists for Inclusive Prosperity’s own efforts show, the policy tools are far from exhausted.