

ZOMBIE ECONOMICS

HOW DEAD IDEAS STILL WALK AMONG US

PRIVATIZED SOCIAL SECURITY!



TRICKLE-DOWN ECONOMICS!



EFFICIENT FINANCIAL MARKETS!



A CHILLING TALE BY JOHN QUIGGIN

ZOMBIE IDEAS

- ☉ IDEAS OUTLIVE THEIR CREATORS
- ☉ SHOULD NOT OUTLIVE THE EVIDENCE THAT SUPPORTED THEM
- ☉ BUT OFTEN DO, IN ZOMBIE FORM

ZOMBIE IDEAS IN ECONOMICS

- ☉ THE GREAT MODERATION
- ☉ THE EFFICIENT MARKETS HYPOTHESIS
- ☉ DYNAMIC STOCHASTIC GENERAL EQUILIBRIUM
- ☉ TRICKLE-DOWN
- ☉ PRIVATISATION

MARKET LIBERALISM

- ☉ IDEAS THAT DOMINATED THE LATE 20TH CENTURY AND EARLY 21ST
- ☉ GAVE RISE TO GLOBAL FINANCIAL CRISIS
- ☉ SHOULD BE DEAD, BUT AREN'T

ZOMBIE LIFE CYCLE

- ☉ BORN OUT OF COLLAPSE OF POSTWAR KEYNESIANISM
- ☉ LIVED AS THEORETICAL BASIS FOR LATE MARKET LIBERALISM
- ☉ KILLED BY THE UGLY FACTS OF GLOBAL FINANCIAL CRISIS
- ☉ REANIMATED IN ZOMBIE FORM
- ☉ LIKELY TO DRIVE ANOTHER CRISIS

WHY ZOMBIE IDEAS ENDURE

- ☉ IDEAS BENEFIT POWERFUL INTERESTS
- ☉ INTELLECTUAL COMMITMENTS ARE TENACIOUS
- ☉ ECONOMICS IS HARD!

EFFICIENT MARKETS HYPOTHESIS

- ☉ MORE PROPERLY, COMPLETE EFFICIENT FINANCIAL MARKETS HYPOTHESIS
- ☉ WEAK FORM
 - ☉ CAN'T PREDICT ASSET PRICES ON BASIS OF PAST HISTORY
 - ☉ EMPIRICALLY WELL SUPPORTED, BUT UNINTERESTING
- ☉ STRONG/SEMI STRONG FORMS

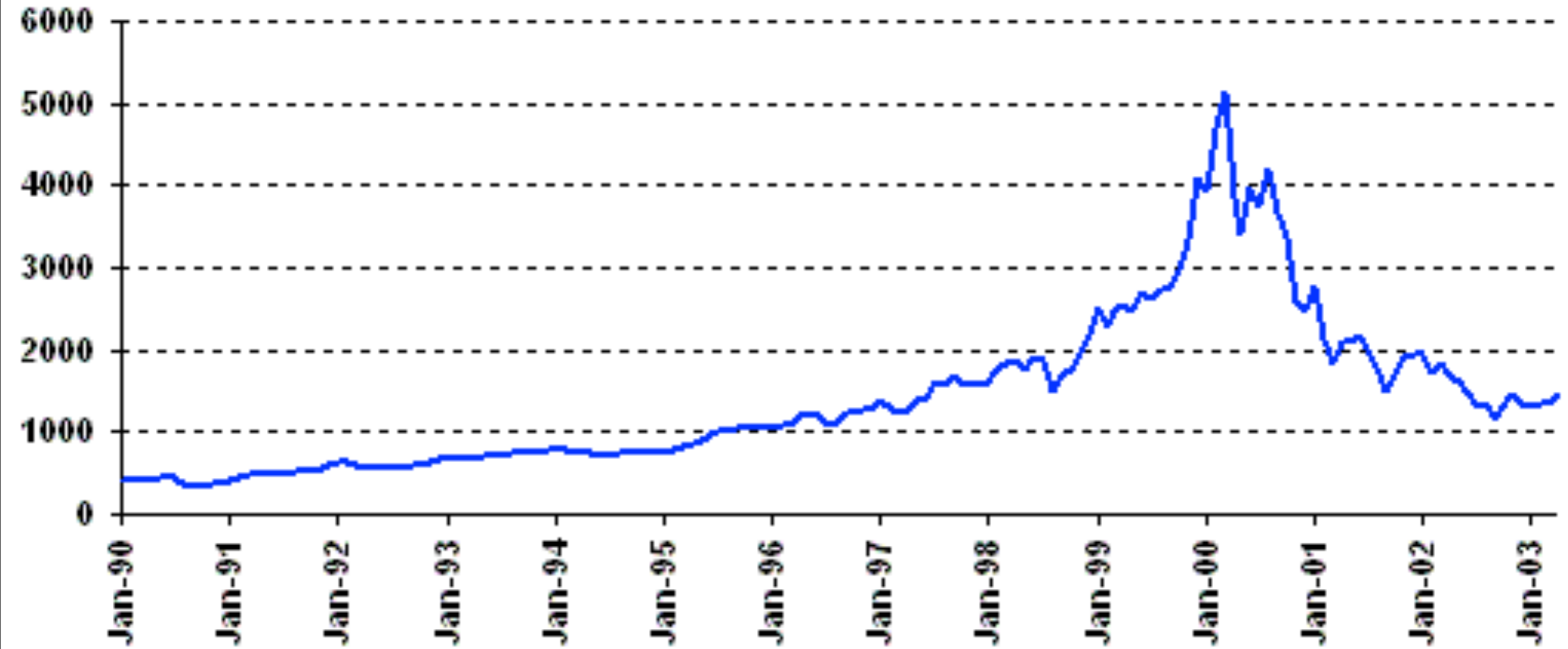
EMH: LIFE

- ☉ GLOBALISATION AND TRIUMPHALISM
- ☉ CENTRAL ROLE OF FINANCIAL MARKETS
 - ☉ SOURCE OF FISCAL DISCIPLINE
 - ☉ OPTIMAL ALLOCATION OF CAPITAL
 - ☉ RISK MANAGEMENT

EMH: DEATH

- ☉ DOTCOM BUBBLE AND BUST
- ☉ MARKET CAN STAY IRRATIONAL LONGER THAN YOU CAN STAY SOLVENT
- ☉ FINANCIAL BUBBLE, BUST AND BAILOUT IN 2000S
- ☉ APPEARS INDIVIDUALLY RATIONAL FOR MOST PARTICIPANTS

Nasdaq (1990-2003)



EMH: REANIMATION

- ☉ SOVEREIGN DEBT CRISIS
- ☉ RETURN OF RATINGS AGENCIES
- ☉ AUSTERITY VS PROFLIGACY
- ☉ PLAUSIBLE FOR GREECE (WITH CONNIVANCE OF FINANCIAL SECTOR)
- ☉ MOST FACE PROBLEMS OF UNAFFORDABLE BAILOUTS, EXCESS RELIANCE ON FINANCIAL SECTOR

THE GREAT MODERATION

- ☉ A PERIOD OF APPARENT ECONOMIC CALM FROM THE MID-1980S ONWARDS
- ☉ POPULARIZED BY BERNANKE

THE GREAT MODERATION: LIFE

☉ CREDITED TO

☉ FINANCIAL DEREGULATION,

☉ IMPROVED CENTRAL BANK POLICY

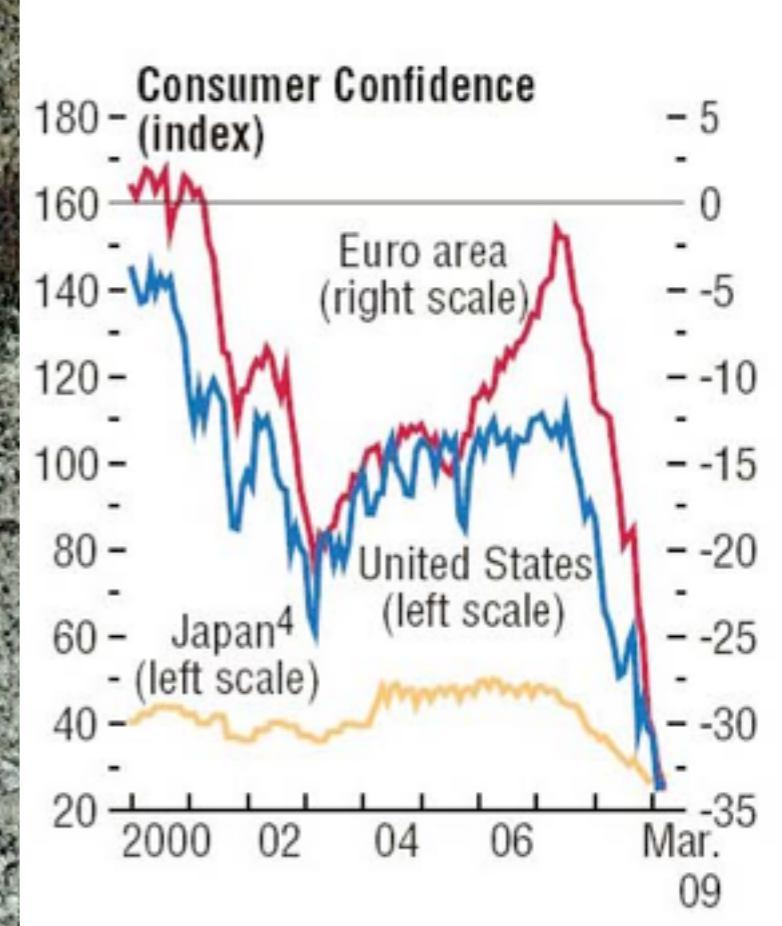
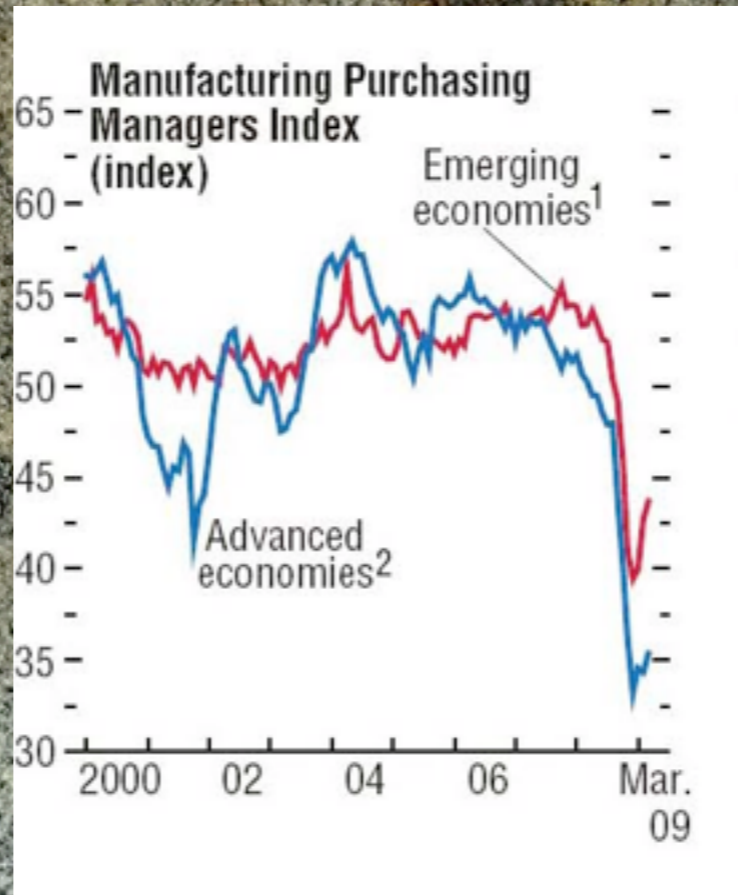
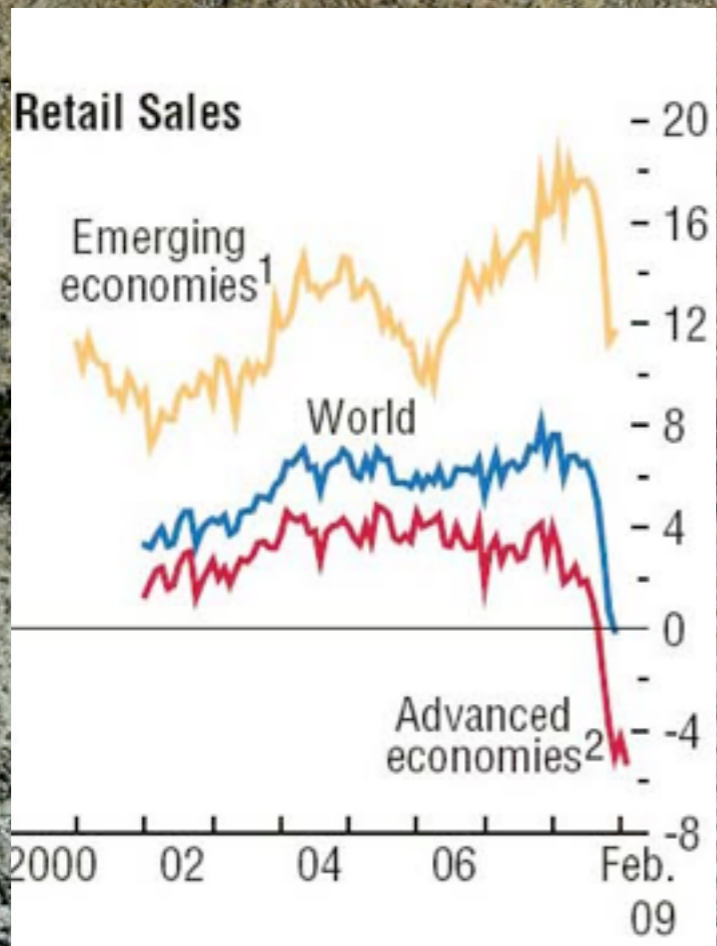
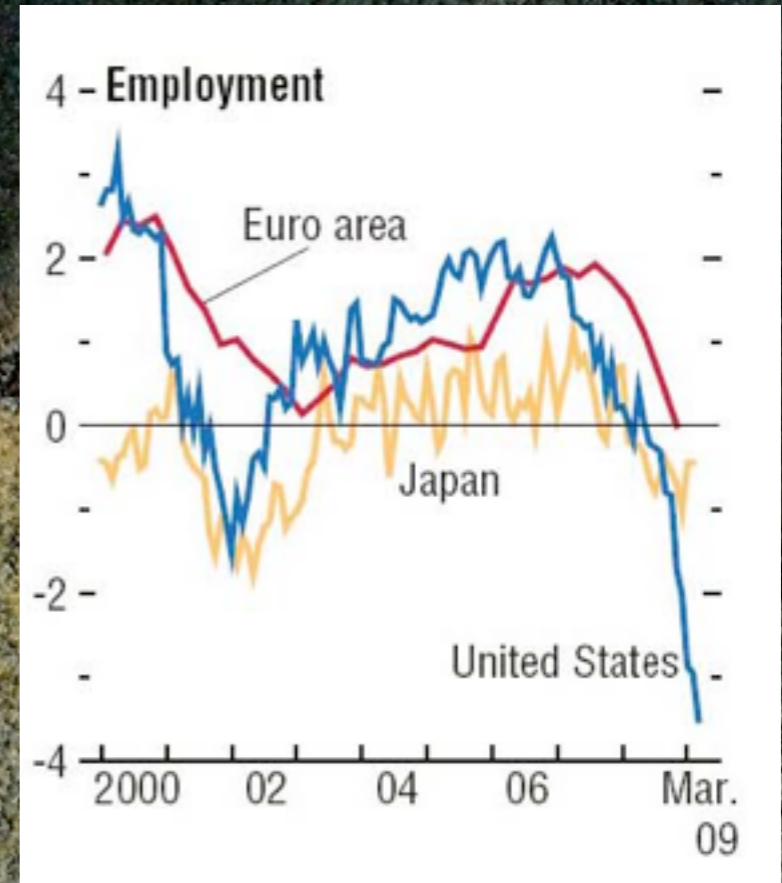
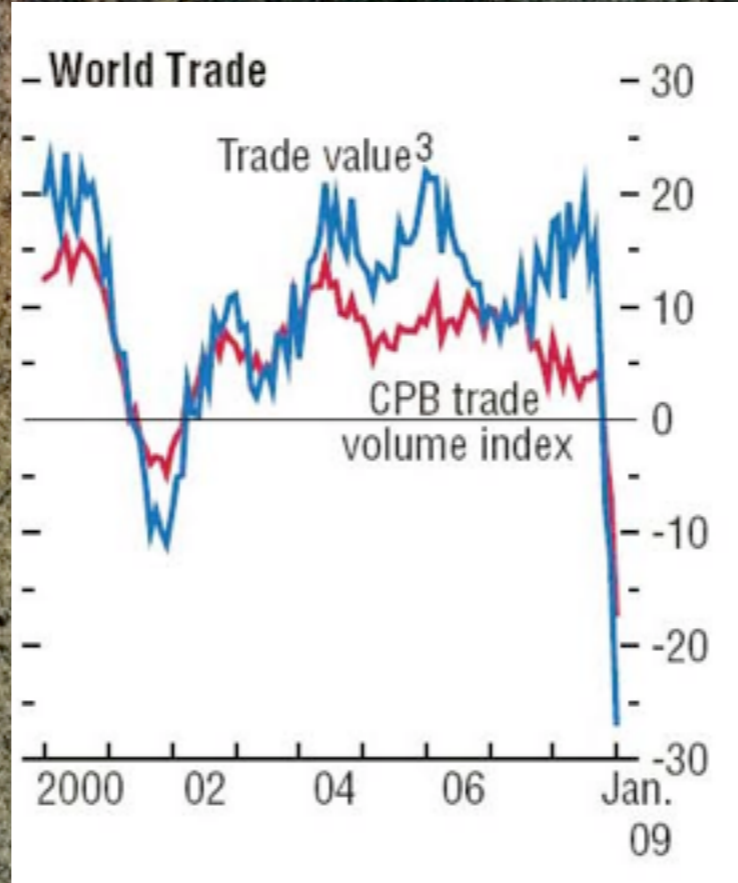
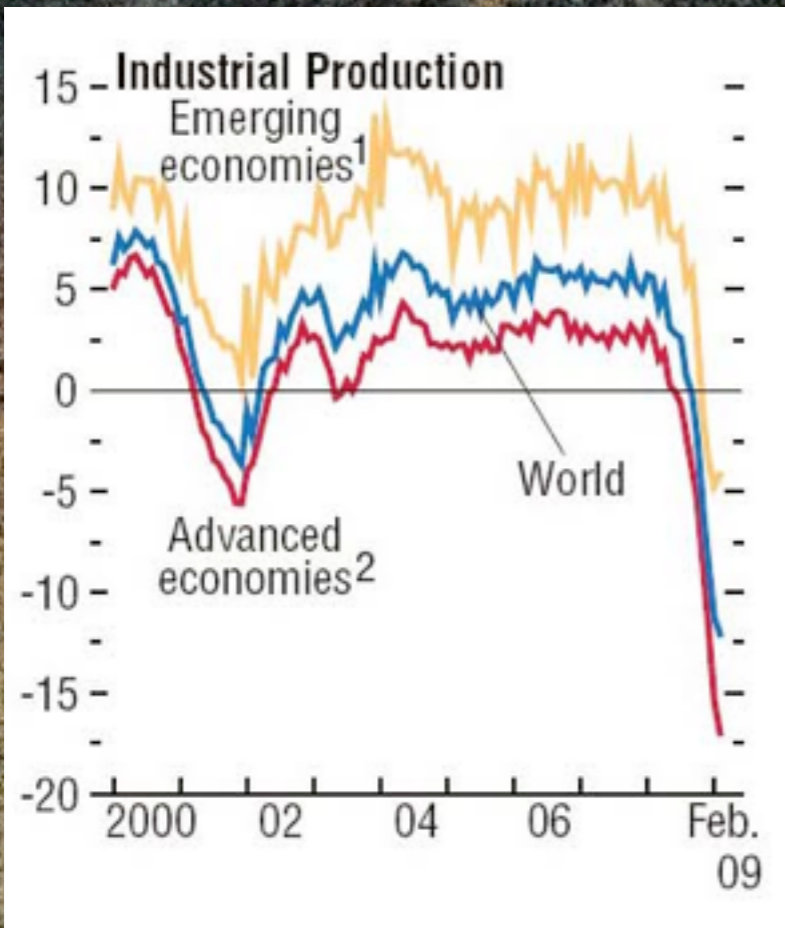
☉ NATURAL FIT WITH

☉ CENTRAL BANK INDEPENDENCE

☉ NO ROLE FOR GOVERNMENT FISCAL POLICY

THE GREAT MODERATION: DEATH

- ☉ CLIFF-DIVING
- ☉ QUASI-RECOVERY



THE GREAT MODERATION: REANIMATION

- ☉ A TRANSITORY VOLATILITY BLIP
(COIBION AND GOURICHENKO)
- ☉ BUSINESS AS USUAL IN MONETARY
POLICY/INFLATION TARGETING

DSGE

- ☉ DYNAMIC STOCHASTIC GENERAL EQUILIBRIUM
- ☉ ELABORATE MACROECONOMIC MODELS DRIVEN BY THEORY RATHER THAN FACT

DSGE: DEATH

- ☉ NO USE IN PREDICTING OR RESOLVING THE GREAT RECESSION
- ☉ DAVID GRUEN, TREASURY
 - ☉ IT IS AS IF, AS THE TITANIC WAS SAILING INTO ICEBERG-INFESTED WATERS, THOSE WITH THE REQUISITE SKILLS AND TRAINING TO WARN OF THE IMPENDING DANGER WERE INSTEAD HARD AT WORK, IN A WINDOWLESS CABIN, PERFECTING THE DESIGN OF SHIP HULLS ... FOR A WORLD WITHOUT ICEBERGS

TRICKLE-DOWN ECONOMICS: BIRTH

- ☉ AN IDEA THAT HAS ALWAYS BEEN WITH US
- ☉ RICH MAN IN HIS CASTLE, POOR MAN AT THE GATE
- ☉ IF THE RICH BECOME RICHER, THE POOR WILL EAT BETTER

TRICKLE-DOWN ECONOMICS: LIFE



TRICKLE-DOWN ECONOMICS: DEATH

- ☉ DISCREDITED, AS FAR AS AN IDEA CAN BE
- ☉ GREAT MODERATION PRODUCED FEW IF ANY GAINS FOR THE POOR
- ☉ WORST HIT BY THE GREAT RECESSION

TRICKLE-DOWN ECONOMICS: REANIMATION

- ☉ BANKERS BACK ON TOP
- ☉ BUSH TAX CUTS FOR THE RICH
- ☉ EXPLAINING POVERTY AWAY

PRIVATISATION: BIRTH

- ☉ TERM ORIGINATED IN NAZI GERMANY
- ☉ BUT WIDESPREAD USE BEGAN WITH THATCHER
- ☉ REVERSAL OF LONG TREND TOWARDS GREATER PUBLIC OWNERSHIP

PRIVATISATION: LIFE

☉ THATCHER REVOLUTION

☉ EMULATED BY LABOR GOVTS IN AUST, NZ

☉ COLLAPSE OF COMMUNISM

☉ US TRIUMPHALISM

☉ END OF HISTORY, LEXUS AND THE OLIVE TREE

PRIVATISATION: DEATH

- ☉ FAILURES AND DISAPPOINTMENTS
 - ☉ NEW ZEALAND AN EXTREME CASE
- ☉ THEORETICAL RATIONALE DISCREDITED
 - ☉ EQUITY PREMIUM PROBLEM
- ☉ (RE)NATIONALISATION
 - ☉ RAILTRACK, AIG, NORTHERN ROCK

PRIVATISATION: REANIMATION

- ☉ STILL AN ARTICLE OF FAITH FOR LABOR GOVERNMENTS
- ☉ QUEENSLAND, NSW
- ☉ FOLLOWING ZOMBIES TO THEIR DOOM
- ☉ NEED A NEW UNDERSTANDING OF THE MIXED ECONOMY

WHERE ARE WE NOW?

☉ POLICY: STILL MAKING IT UP AS WE GO ALONG

☉ THEORY: FACTS HAVE CHANGED, BUT ECONOMICS HAS NOT

WHAT DO WE NEED?

- ☉ MORE REALISTIC MICRO-FOUNDATIONS
- ☉ BEHAVIORAL ECONOMICS
- ☉ UNDERSTANDING OF AGGREGATE PHENOMENA
- ☉ TRUST, SOCIAL NETWORKS
- ☉ MODELS OF DISEQUILIBRIUM

WHERE TO FROM HERE?

- ☉ NEED TO RETHINK C20 EXPERIENCE
- ☉ UNDERSTAND SUCCESS AND FAILURE OF POSTWAR GOLDEN AGE
- ☉ ECONOMICS SHOULD FOCUS:
 - ☉ MORE ON REALISM, LESS ON RIGOR
 - ☉ MORE ON EQUITY, LESS ON EFFICIENCY
 - ☉ MORE ON HUMILITY, LESS ON HUBRIS

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