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Tom Sargent Summarizes Economics

by [Alex Tabarrok](#) on April 19, 2014 at 6:35 am in [Economics](#), [Education](#) | [Permalink](#)

After he won the Nobel, Tom Sargent was “interviewed” in an [ad for Ally bank](#) in which his response was simply (and correctly), “no.” The joke is even better than I realized because Sargent has a history of giving very short speeches. In 2007 he gave a graduation speech to Berkeley undergraduates summarizing economics in just 335 words.

It’s a damn fine speech.

I remember how happy I felt when I graduated from Berkeley many years ago. But I thought the graduation speeches were long. I will economize on words.

Economics is organized common sense. Here is a short list of valuable lessons that our beautiful subject teaches.

1. Many things that are desirable are not feasible.
2. Individuals and communities face trade-offs.
3. Other people have more information about their abilities, their efforts, and their preferences than you do.
4. Everyone responds to incentives, including people you want to help. That is why social safety nets don’t always end up working as intended.
5. There are tradeoffs between equality and efficiency.
6. In an equilibrium of a game or an economy, people are satisfied with their choices. That is why it is difficult for well meaning outsiders to change things for better or worse.
7. In the future, you too will respond to incentives. That is why there are some promises that you’d like to make but can’t. No one will believe those promises because they know that later it will not be in your interest to deliver. The lesson here is this: before you make a promise, think about whether you will want to keep it if and when your circumstances change. This is how you earn a reputation.
8. Governments and voters respond to incentives too. That is why governments sometimes default on loans and other promises that they have made.
9. It is feasible for one generation to shift costs to subsequent ones. That is what national government debts and the U.S. social security system do (but not the social security system of Singapore).
10. When a government spends, its citizens eventually pay, either today or tomorrow, either through explicit taxes or implicit ones like inflation.
11. Most people want other people to pay for public goods and government

transfers (especially transfers to themselves).

12. Because market prices aggregate traders' information, it is difficult to forecast stock prices and interest rates and exchange rates.

Hat tip to [Utopia—you are standing on it](#) via [Newmark's Door](#).



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foosion April 19, 2014 at 6:43 am

National debt is paid from the next generation to the next generation. How is that a generational transfer?

Joe In Morgantown April 19, 2014 at 7:51 am

Generations overlap

foosion April 19, 2014 at 8:32 am

That generations overlap would seem to further diminish the claim that national debt is a transfer between generations. Perhaps I misunderstand your reply.

Yancey Ward April 19, 2014 at 10:42 am

The overlap necessarily means that there *will* be a generation that pays more for the debt as asset than it receives in payment on selling the asset to a subsequent generation.

foosion April 19, 2014 at 11:00 am

At any point in time, if the government collects taxes from A and turns around and uses the money to pay on a bond held by B, A and B are likely to be alive at approximately the same time.

The more likely scenario for large economies issuing debt in their own currency is the government finances the repayment of debt with new debt.

derek April 19, 2014 at 11:16 am

And debt carrying costs are only a figment of my imagination.

Yancey Ward April 19, 2014 at 11:20 am

Foosion,

You are proposing the eternal free lunch. Government debts always get retired one way or another- either via future taxation or default.

foosion April 19, 2014 at 11:43 am

Debt carrying costs are paid the same way principal is paid.

Government debt is not a free lunch to the extent it raises borrowing costs