

Brad DeLong's Grasping Reality

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Werning, Rodrik, Dube, DeLong: Market & Government Failure—Dawn Procrastination Department



<https://twitter.com/delong/status/1282300712718725121> /van Werning**: 'Many economists repeat (without thinking?) that the burden of the proof is on showing a market failure. Perhaps makes sense in some politico-economy perspective, to avoid lobbies. But scientifically, I cannot make sense of it from a Bayesian perspective.'

Dani Rodrik: 'It doesn't make sense even from a political-economy perspective (typically there are "barbarians" on the laissez-faire side of an issue as well). Here's something I wrote on this a while back, distinguishing first-best and second-best economists: **Why do economists disagree?** Non-economists are often baffled by the disagreements among professional economists on the issues of the day—from international trade to the minimum wage, from economic development to health policy... <https://github.com/braddelong/public-files/blob/master/readings/weblog-rodrik-2007-disagree.pdf>'

Arindrajit Dube: 'Exactly. I think since the 1970s, there has been a remarkably cavalier assumption that intellectual deviations from competitive, efficient, neoclassicism are somehow more amenable to capture by interest groups than fairy tales about how markets work.'

Brad DeLong: Say, perhaps, that we have very good theories of individual narrow market failures, but no institutional ability to include them in our background model of how the economy outside of our narrow era of focus is working. Keynes's *General Theory*.

If effective demand is deficient, not only is the public scandal of wasted resources intolerable, but the individual enterpriser who seeks to bring these resources into action is operating with the odds loaded against him. The game of hazard which he plays is furnished with many zeros, so that the players as a whole will lose if they have the energy and hope to deal all the cards...

being only one of a very few attempts to even think about the implications for market Y of market failure in market Z.

And say that, while we have good models of market failure, we do not have good models of government failure. As Larry the S said a decade ago, on the one hand we have naive social democratic pollyannaish overconfidence about regulation, and on the other hand "the public choice school... driven... relentlessly towards nihilism in a way that isn't actually helpful for those charged with designing regulatory institutions...

<https://github.com/braddelong/public-files/blob/master/readings/conversation-summers-wolf-bretton-woods.pdf>

Cf.: **Bill C.** <https://twentycentparadigms.blogspot.com/2007/08/two-kinds-of-economists.html>

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