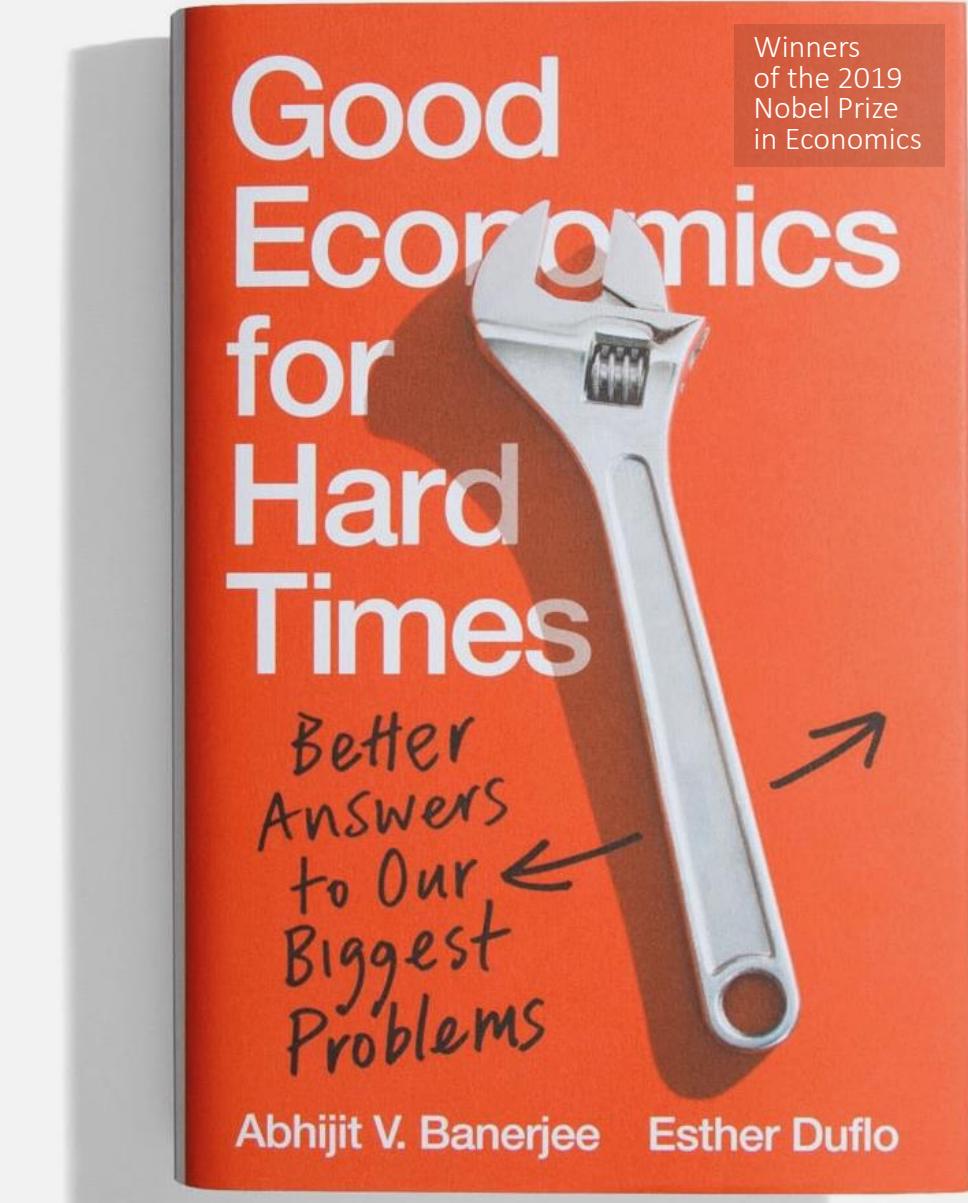




Good Economics For ~~Hard Times~~ ~~Harder Times~~ More Hopeful(?) Times

A course by Abhijit Banerjee
and Esther Duflo



Lecture 1: Introduction

Make economics great again

Welcome!

Most important issues today are core economic issues

Brexit

Trade

Immigration

Economic growth

Inequality

Social policy

Climate change

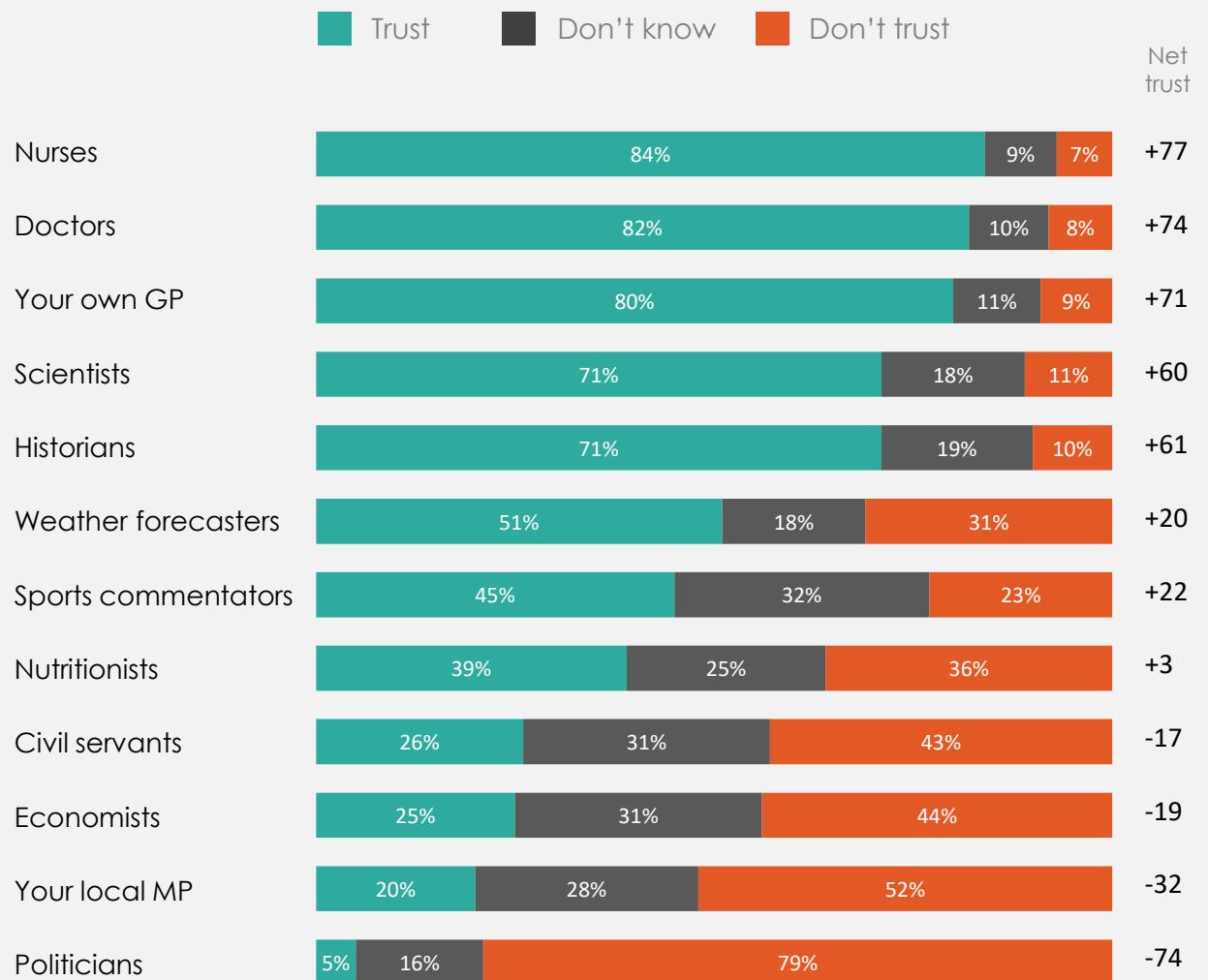
Pandemic & its
economic impacts

Racism &
discrimination

But sadly...economists have lost most of their credibility

Public trust in experts

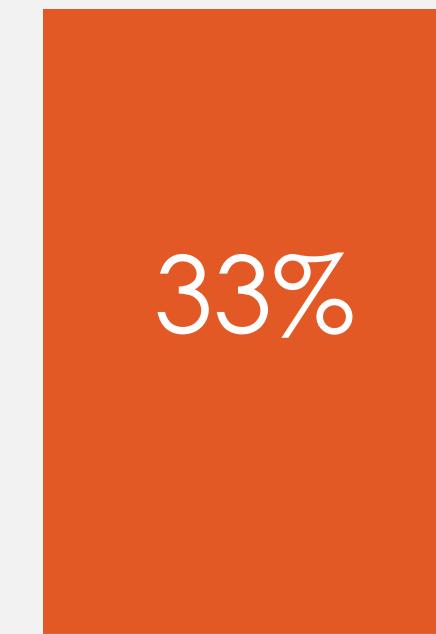
Of the following, whose opinions do you tend to trust when they talk about their fields of expertise?



People disagree with economists on most core issues

“

Imposing new US tariffs on steel and aluminum will improve Americans' well-being.



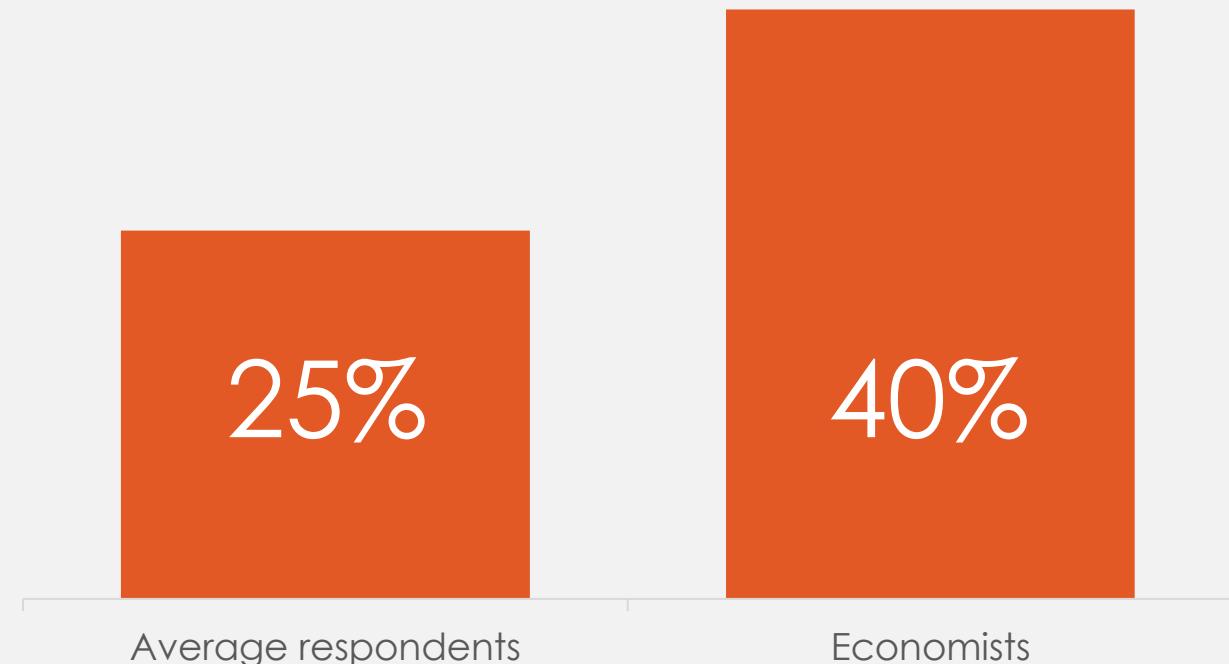
Average respondents

Experts

Citizens are often more pessimistic than economists

“

The influx of refugees into Germany beginning in the summer of 2015 would bring economic benefits to Germany over the succeeding decade.



L'ARGENT DE
L'ECOLOGIE EST
DANS LES PARADIS
FISCAUX
PAS DANS LA POCHE
DES PROLOS!

CITOYEN EN COLÈRE
CITOYEN SOLIDAIRE

The (lack of) effect of Priming

TABLE 5: EFFECT OF PRIMING

Short Summary	% Agree and Strongly Agree	FTI		EEP
		No Priming	Priming	EEP
Carbon tax vs car standards	% Agree and Strongly Agree	22.51	25.72	92.50
	% Uncertain/Do not know	13.81	7.92	5.00
NAFTA increased welfare	% Agree and Strongly Agree	46.17	51.43	94.59
	% Uncertain/Do not know	15.39	18.47	5.41
It is hard to predict stock prices	% Agree and Strongly Agree	55.22	42.71	100
	% Uncertain/Do not know	15.70	7.81	0.00

Source: Sapienza and Zingales "Economic experts vs average American"

Why this mistrust?

Hmmmm.....

Economists as forecasters

“

The only function of economic forecasting is to make astrology look respectable.

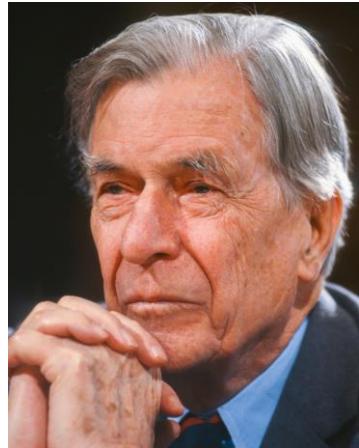


Photo: Rob Crandall | Shutterstock.com

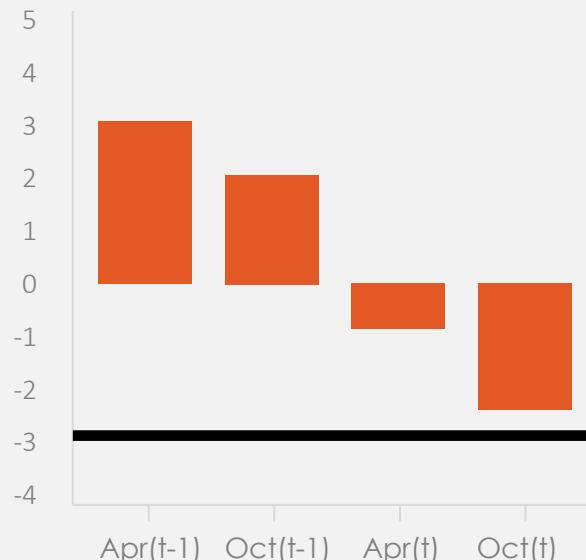
John
Kenneth
Galbraith

Loungani (IMF):
Economists systematically miss recessions

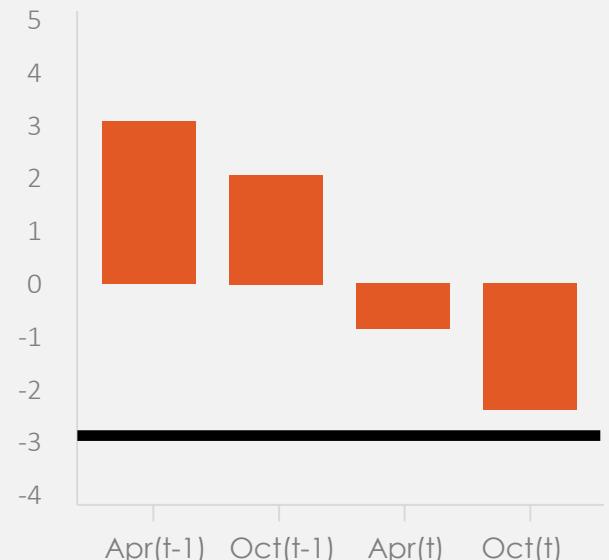
Evolution of forecasts in the run-up to recessions

All countries

Consensus



IMF Forecasts

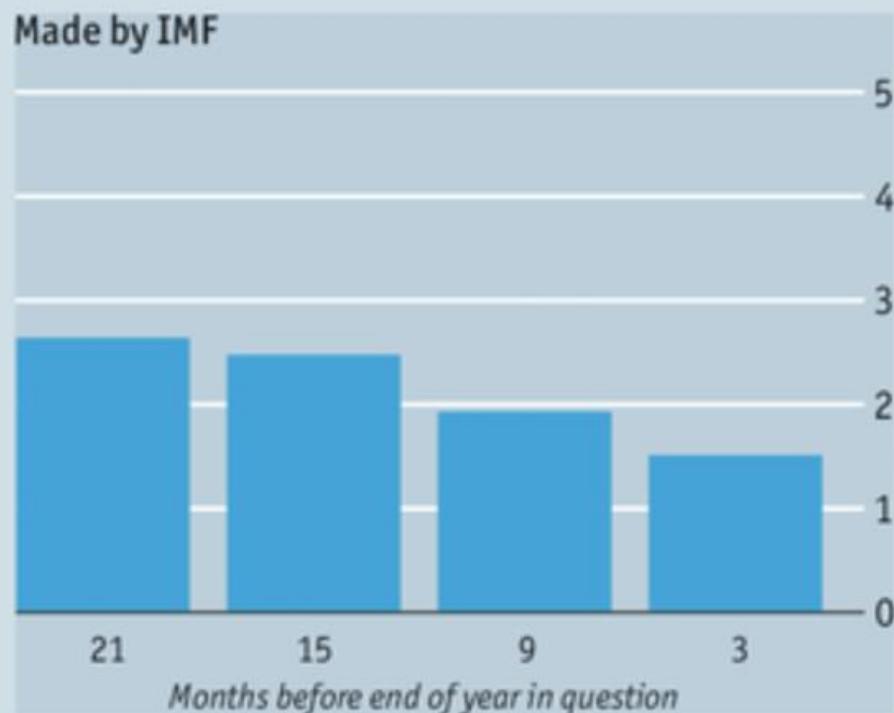


Not much better than Chance

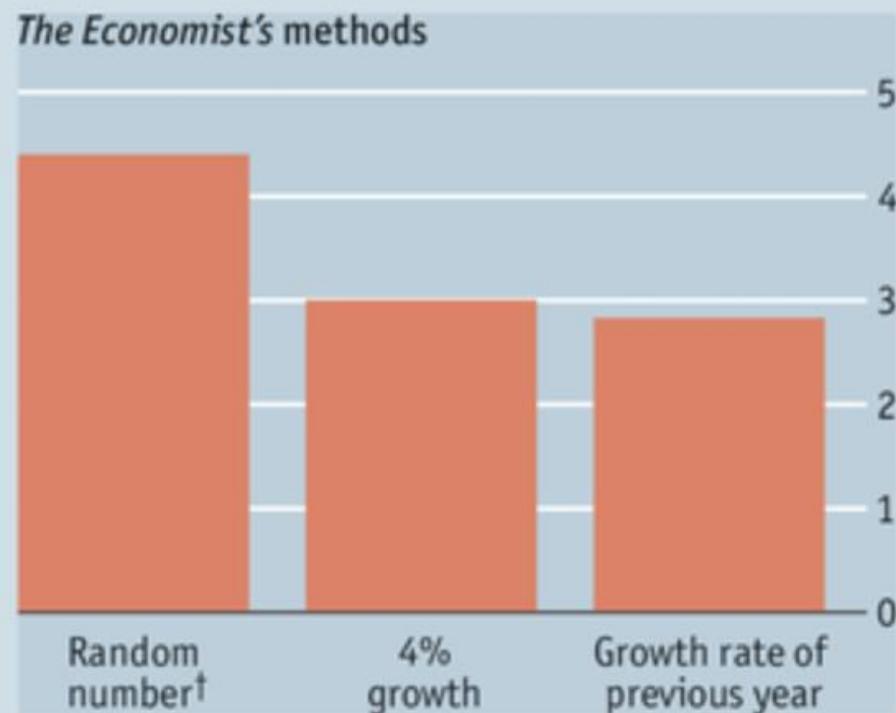
Pick a number

Mean absolute error of GDP forecasts*, 2000-14, percentage points

Made by IMF



The Economist's methods



Sources: IMF; *The Economist*

*For countries included in World Economic Outlook database †From a range of -2 to 10



“

The social
responsibility of
business is to
increase its profits.

Milton Friedman

The New York Times

Economics, Dominated by White Men, Is Roiled by Black Lives Matter

The editor of a top academic journal is facing calls to resign after criticizing protesters as “flat earthers” for wanting to defund the police.

And yet we cannot quite afford to give up

Most economics is
neither forecasting,
nor justifying the
way it is!

Economists study
inequality, poverty,
racism, COVID-19,
vaccine patents,
climate change....

But most economics
is not really "flashy"

More plumbing than physics...



Five Lessons

(and how they are still
valid for our harder times...)

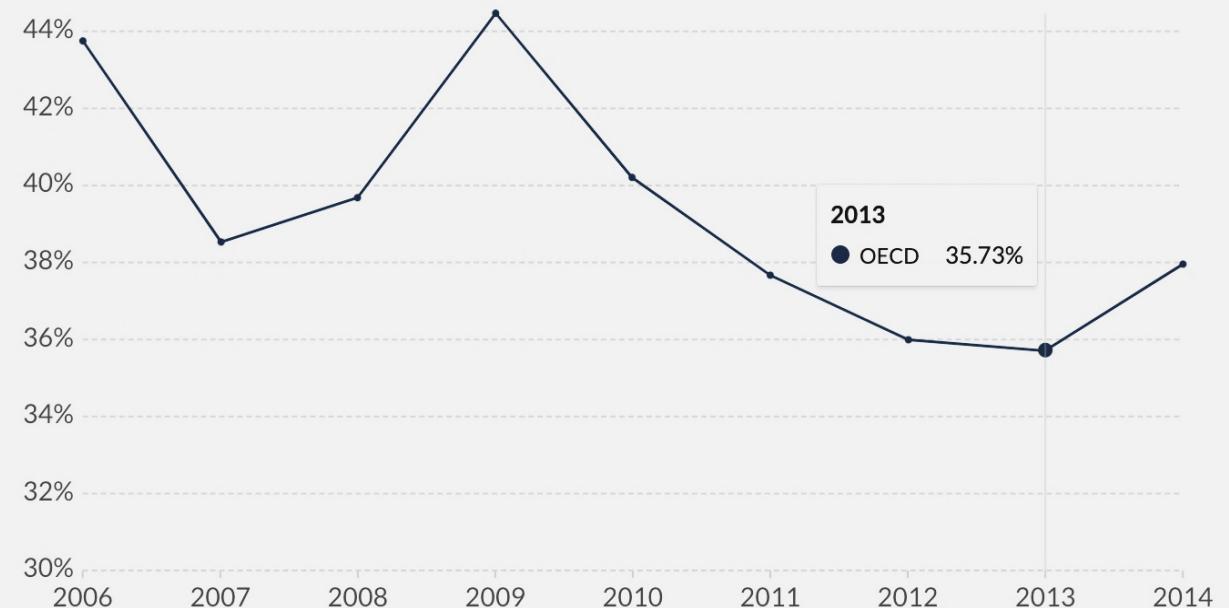
Lesson 1

Legit.gov

Decline in trust in government worldwide

OECD average trust in governments, 2006-2014

Percentage of the population reporting confidence in the national government



**It's easy to treat the
government as a
punching bag**



Photos: Dawn Teo | Huffington Post; tcf.org; stocksandjocks.net

The COVID-19 crisis reminds us why we need governments...

Shutting down your business,
wearing a mask, are externalities...

Vaccine development

Economic rescue packages

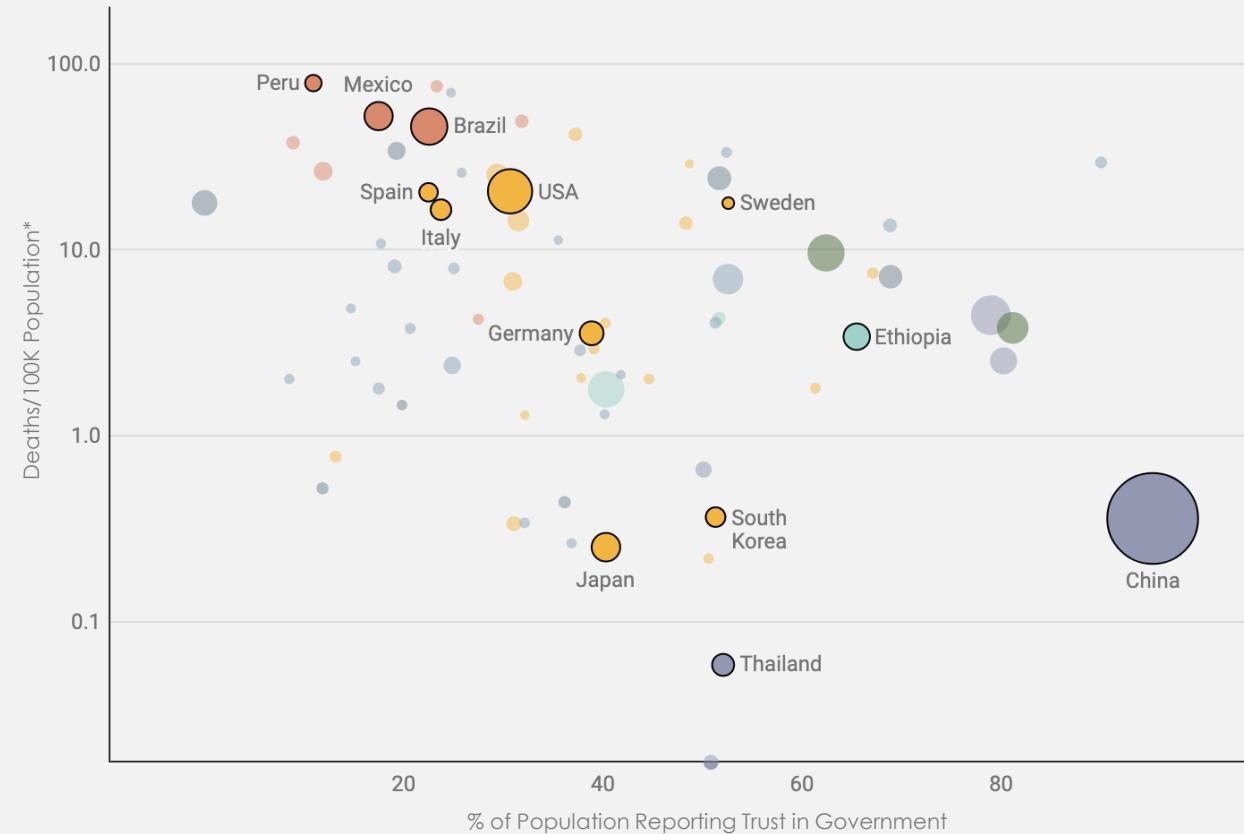
Making sure the right
people get the vaccine

And trust in government is important for success against COVID-19

Countries Without Government Trust Have Performed Poorly

A comparison of government trust and cumulative COVID-19 death rates

■ North Africa & Middle East ■ Sub-Saharan Africa ■ Central/Eastern Europe & Central Asia ■ High-income Countries
■ Latin America & Caribbean ■ South Asia ■ Southeast/East Asia & Oceania



A make or break moment...

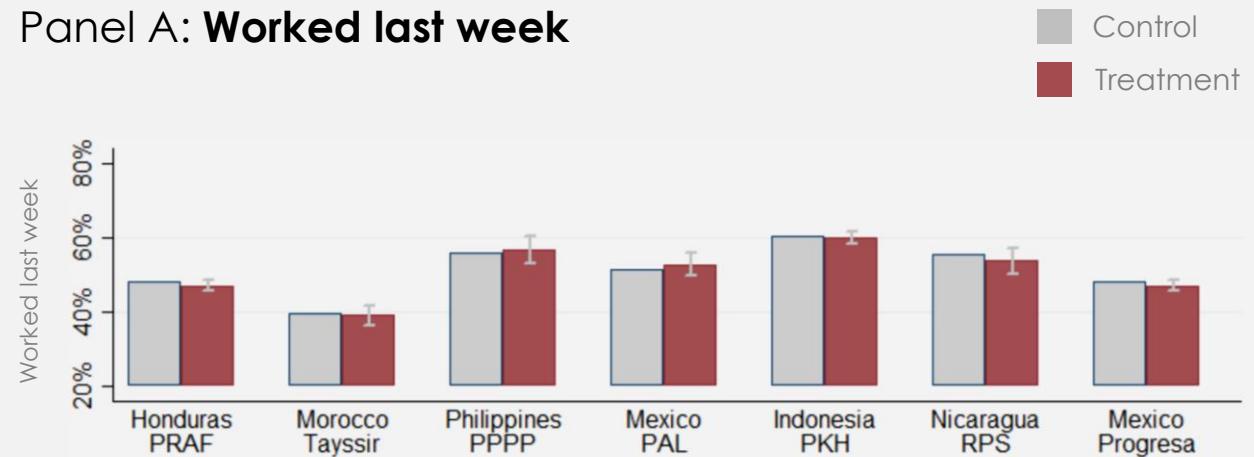


Lesson 2

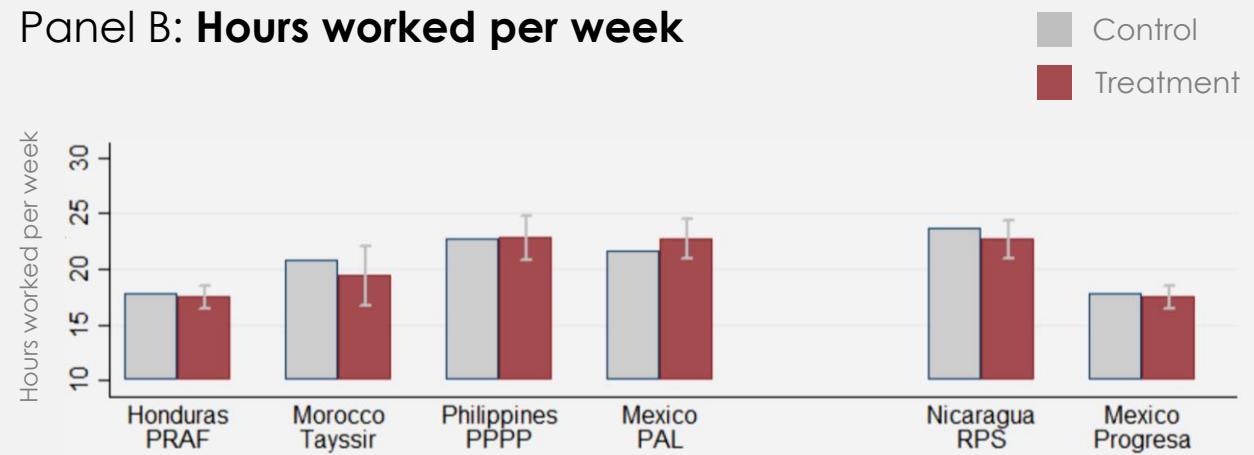
Financial incentives are
(more than ever) overrated

The “lazy” welfare recipient

Panel A: Worked last week

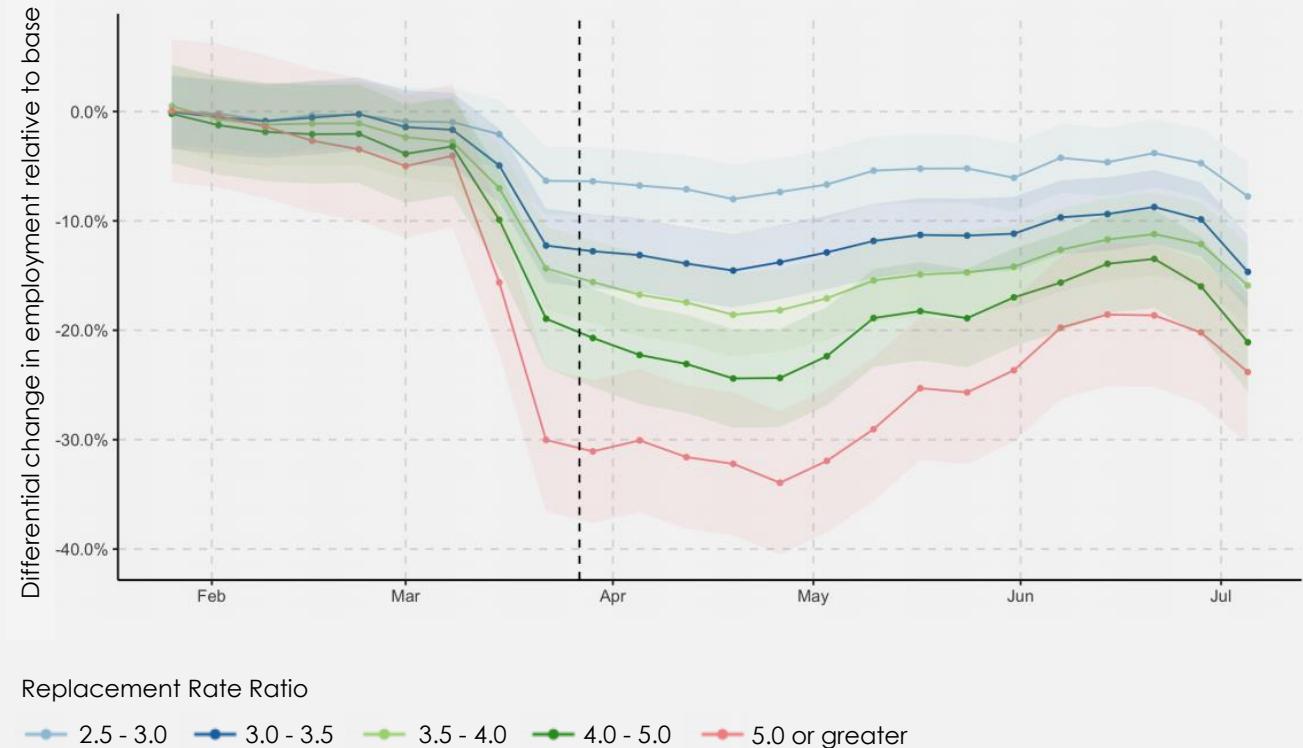


Panel B: Hours worked per week



The “Yale economists” indeed show very little impact of CARES on employment

Effects of replacement rate ratio on probability of employment



Some ideas are hard to root out...

The New York Times

Sen. Chuck Grassley, R-Iowa, the Finance Committee chairman, said the \$600 weekly payments were "poorly targeted," with the result that most recipients are being paid more on unemployment insurance than they earned when they were working.

"This discourages people from returning to work or taking a new job, delaying the recovery," Grassley said.

WSJ | OPINION

OPINION | REVIEW & OUTLOOK

Economists vs. Common Sense

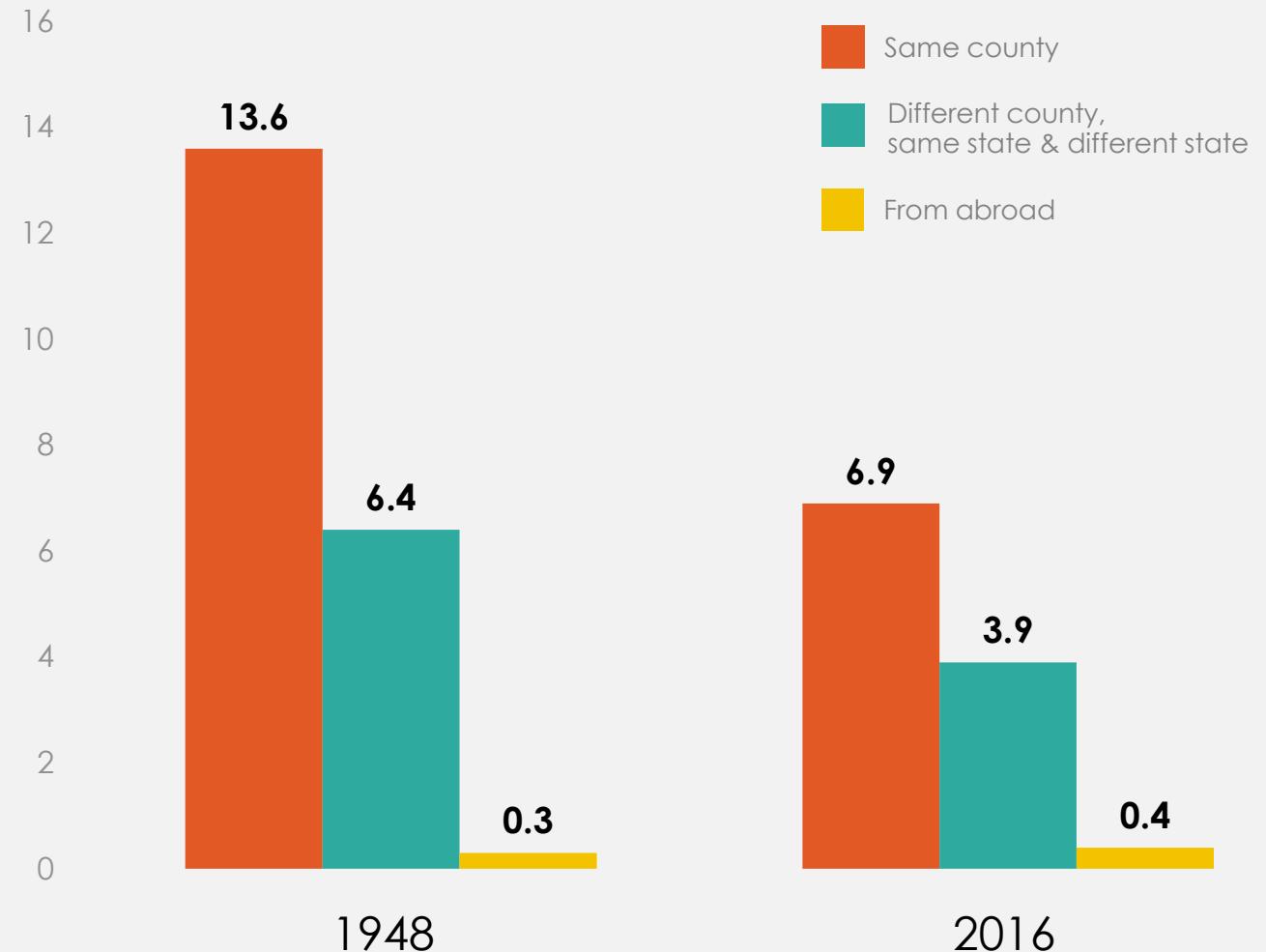
If you pay people not to work, fewer will work. Except at Yale, it seems.

Lesson 3

The economy is stickIER

RIP, Tocqueville

Type of move by year: 1948 and 2016



Source: U.S. Census Bureau, Current Population Survey, 1948 and 2016.

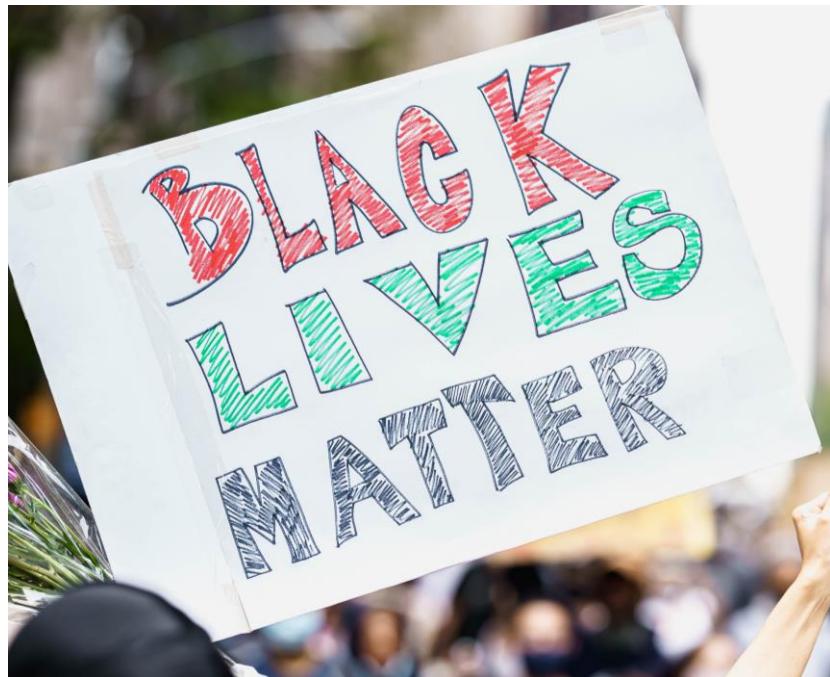


COVID response has
been disastrous for
migrants in the South

Lesson 4

De Gustibus....

The pandemic put racial inequality into focus



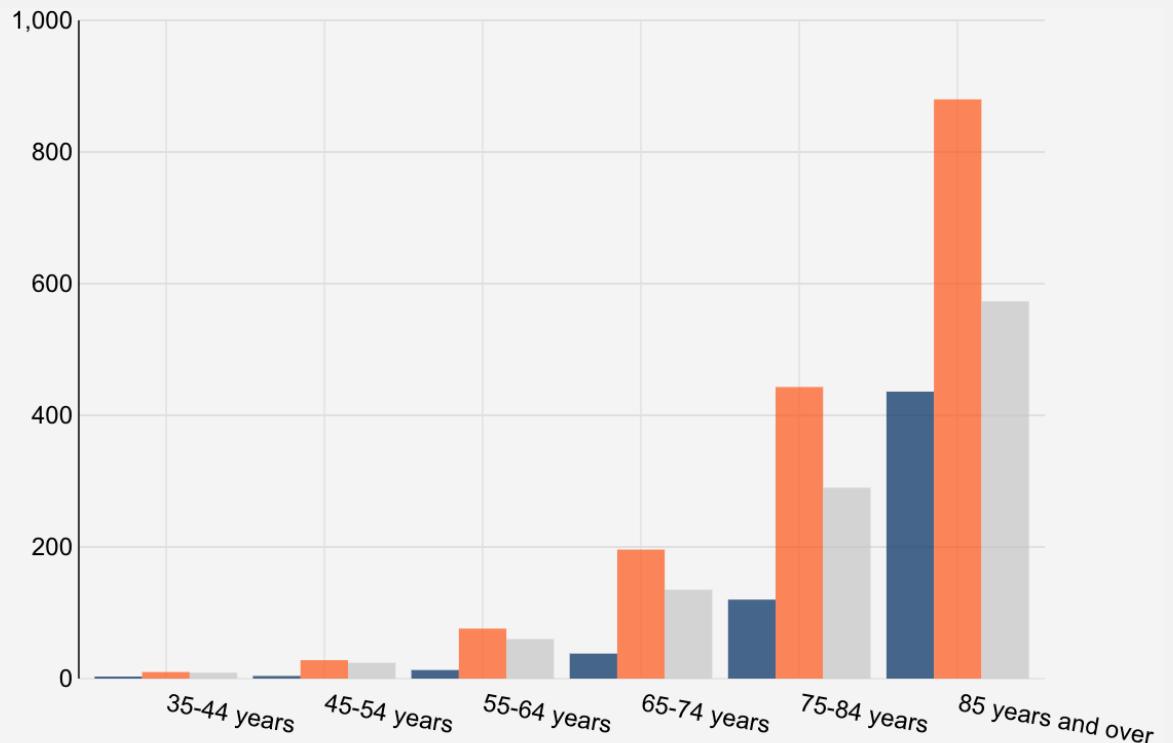
Protests in NYC, June 2020.

Photo: tetiana.photographer | Shutterstock.com

Covid-19 death rates by age and race

Rates per 100,000

White Black Hispanic/Latino



BROOKINGS

Source: CDC data from 2/1/20-6/6/20 and 2018 Census Population Estimates for USA

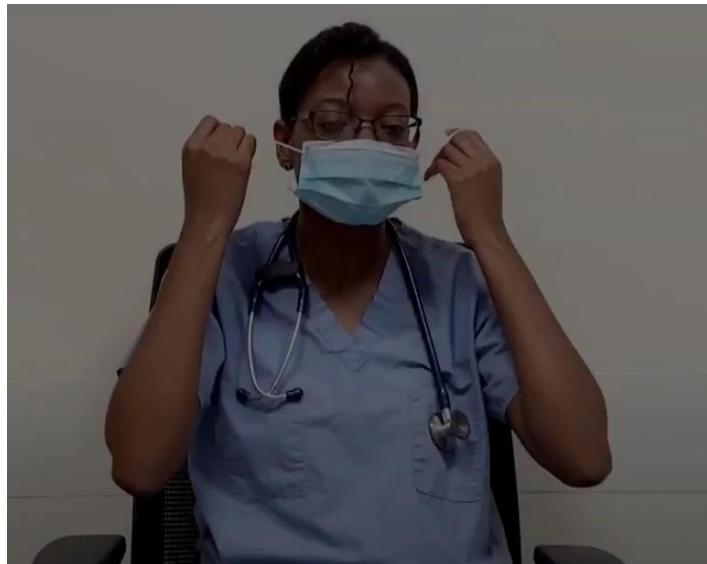
The racist element
was obvious in the
capitol attack



But actually people can listen....

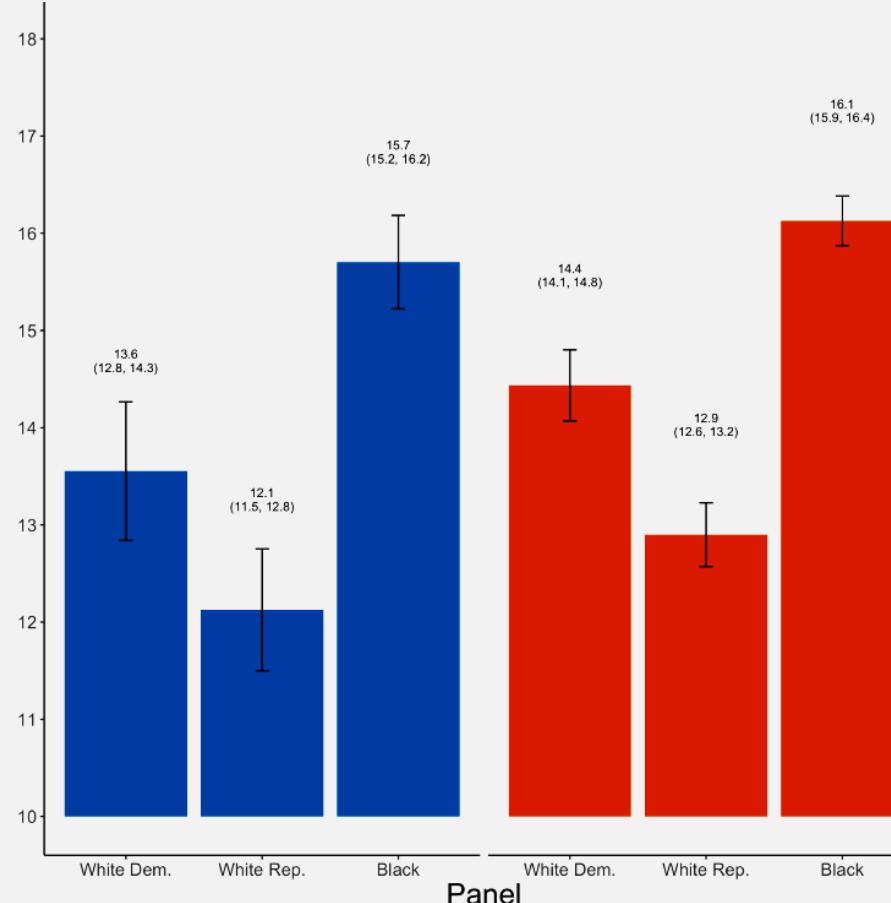
Since May 2020 we have been working with doctors in several projects to record and diffuse informational messages on COVID

These simple interventions are remarkably effective, for everyone



Willingness to pay for a mask (\$)

Control Intervention



Lesson 5

Dignity matters

“

Mitch (McConnel) kills the poor



There is some truth to it

Expected age at death, y

Women by household income percentile

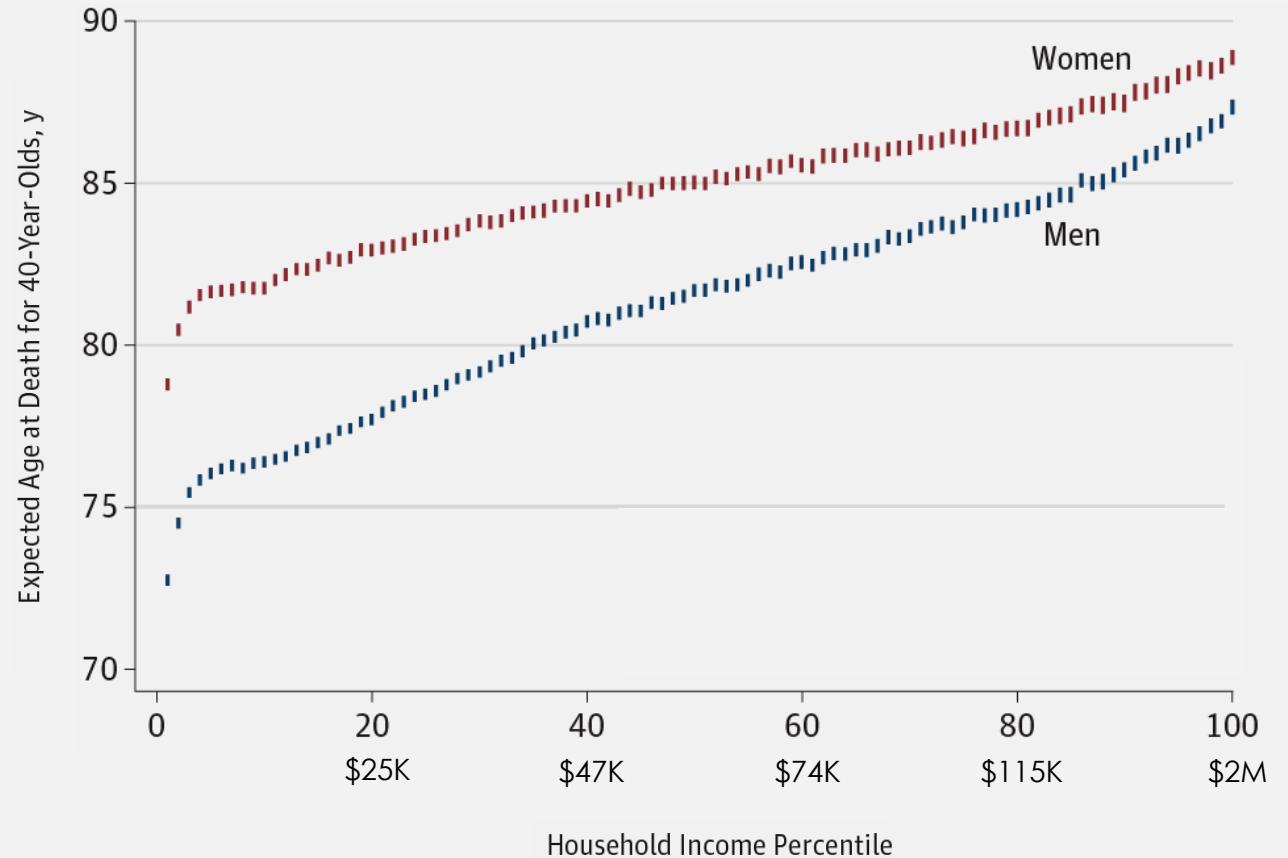
Bottom 1%: 78.8 (95% CI, 78.7-78.9)

Top 1%: 88.9 (95% CI, 88.7-89.1)

Men by household income percentile

Bottom 1%: 72.7 (95% CI, 72.6-72.9)

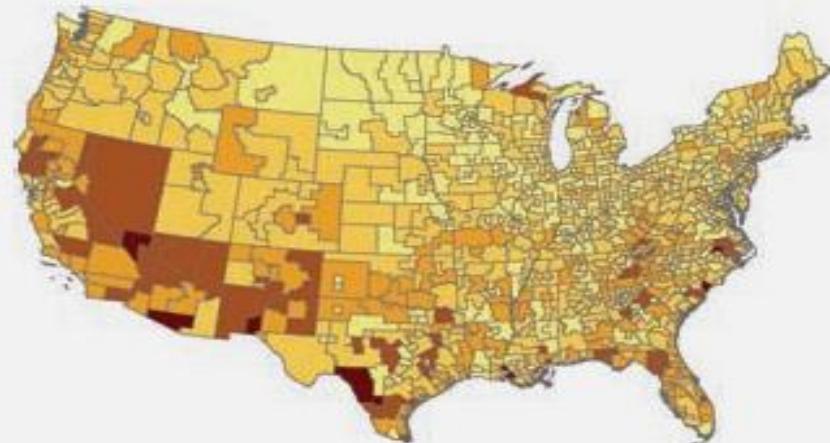
Top 1%: 87.3 (95% CI, 87.2-87.5)



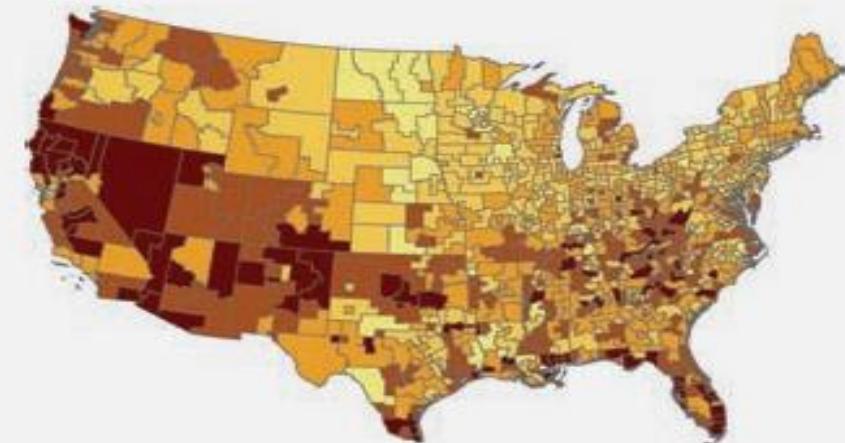
Deaths of despair for white non-Hispanics

Age 45-54,
by Couma, 2000-14^a

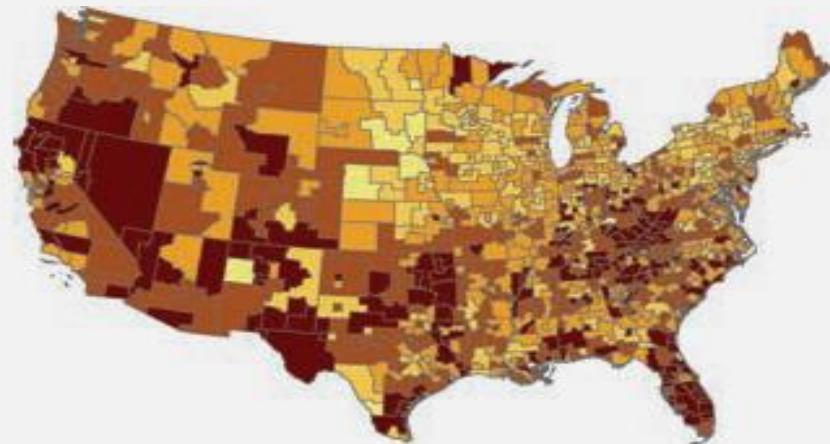
2000



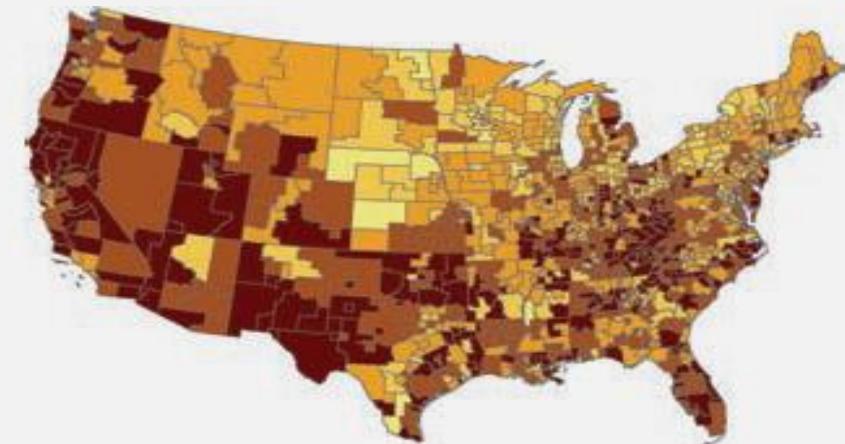
2007



2011



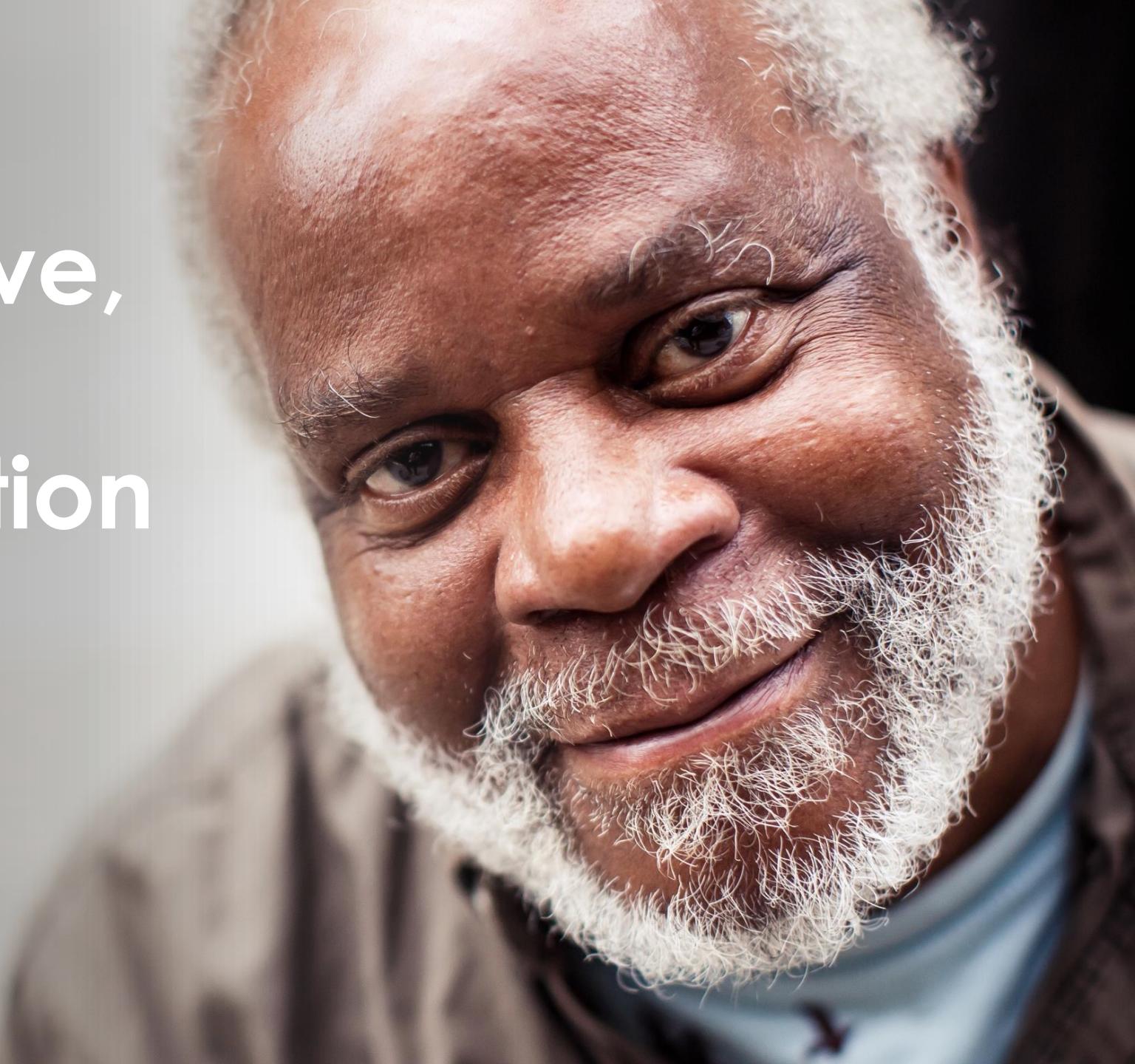
2014



- [Light yellow square] 0 to 25
- [Yellow square] 25 to 50
- [Orange square] 50 to 75
- [Dark orange square] 75 to 100
- [Dark brown square] 100 to 311

Three opportunities from the COVID crisis

**Start with
comprehensive,
generous,
social protection**



Fighting climate change



A shared destiny?

