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## Economics not without success

Posted by: [Economist.com](#) | WASHINGTON

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*This week, we will be posting some responses to our pieces on the failings and future of economics. The following is an emailed contribution by Mark Gertler, the Henry and Lucy Moses Professor of Economics at New York University.*

THE current crisis has naturally led to scrutiny of the economics profession. The intensity of this scrutiny ratcheted up a notch with *The Economist's* interesting cover story this week on the state of academic economics.

I think some of the criticism has been fair. The Great Moderation gave many in the profession the false sense that we had handled the problem of the business cycle as well as we could. Traditional applied macroeconomic research on booms and busts and macroeconomic policy fell into something of a second class status within the field in favor of more exotic topics.

At the same time, from the discussion thus far, I don't think the public is getting the full picture of what has been going on in the profession. From my vantage, there has been lots of high quality "middle ground" modern macroeconomic research that has been relevant to understanding and addressing the current crisis.

Here I think, though, that both the mainstream media and the blogosphere have been confusing a failure to anticipate the crisis with a failure to have the research available to comprehend it. Predicting the crisis would have required foreseeing the risks posed by the shadow banking system, which were missed not only by academic economists, but by just about everyone else on the planet (including the ratings agencies!).

But once the crisis hit, broadly speaking, policy-makers at the Federal Reserve made use of academic research on financial crises to help diagnose the situation and design the policy response. Research on monetary and fiscal policy when the nominal interest is at the zero lower bound has also been relevant. Quantitative macro models that incorporate financial factors, which existed well before the crisis, are rapidly being updated in light of new insights from the unfolding of recent events. Work on fiscal policy, which admittedly had been somewhat dormant, is now proceeding at a rapid pace.

Bottom line: as happened in both the wake of the Great Depression and the Great Stagflation, economic research is responding. In this case, the time lag will be much shorter given the existing base of work to build on. Revealed preference confirms that we still have something useful to offer: demand for our services by the ultimate consumers of modern applied macro research—policy makers and staff at central banks—seems to be higher than ever.

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[NotAGenius](#) wrote:

July 21, 2009 15:50

I finally read the Financial Economics Briefing, and saw that The Economist already spoke to Andrew Lo. Good work. I would still like to see someone more heavily involved on the agent modeling side asked his or her opinion in this series on the future of macro. Particularly in regards to modeling the financial system's interaction with the "real" economy.

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[Curious David](#) wrote:

July 21, 2009 2:39

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A Note to Mark Gertler and the Free Exchange blog:

The folks at the Bank for International Statement (BIS) did correctly see the problems ahead of time and attempted to warn the Fed. This should not be a surprise to the Economist Magazine who has covered the work of the BIS in the past. Why no mention of the BIS in your article?

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NotAGenius wrote: July 20, 2009 17:21  
Robert Axtell would be another very good one.

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NotAGenius wrote: July 20, 2009 16:03  
to Washington:

I'd like to suggest inviting commentary from someone familiar with agent based modeling and adaptive markets, such as John Miller of the Sante Fe Institute and Carnegie Mellon.

Other candidates include John D. Geanakoplos at Yale and Leigh Tesfatsion at Iowa State. Maybe Andrew Lo at MIT.

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fundamentalist wrote: July 20, 2009 14:20  
PS, mainstream economists remind me of drunks in two ways: 1) they're always looking under the street lamp for their keys (because that's where the light is) instead of using reason and 2) they're in denial. They need to attend AA and learn that they can not improve unless they quit denying they have a problem.

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fundamentalist wrote: July 20, 2009 14:10  
"Predicting the crisis would have required foreseeing the risks posed by the shadow banking system, which were missed not only by academic economists, but by just about everyone else on the planet (including the ratings agencies!)."

That's simply not true! Plenty of articles have been written about those who got it right, mostly Austrian economists. Of course, no one in mainstream economics got it right. Maybe that's what he meant.

"...the blogosphere have been confusing a failure to anticipate the crisis with a failure to have the research available to comprehend it."

I disagree. The blogosphere thinks that economists should have been able to see the worst depression since WWII coming. Knowledge implies the ability to predict. Everyone knows that mainstream economics can predict the last depression very accurately.

"Bottom line: as happened in both the wake of the Great Depression and the Great Stagflation, economic research is responding."

And responding and responding, but never getting any closer to being able to predict the next one. There is a great deal of evidence that mainstream economics has not improved at all since the Great D. If it had, why did all of the mainstream economists fall back on Keynes when prescribing remedies? The current debate seems like the same one in the 1930's.

"...demand for our services by the ultimate consumers of modern applied macro research—policy makers and staff at central banks—seems to be higher than ever."

So demand by state institutions for theories that justify policies that politicians already want to implement is a sign of success? BTW, this explains one of the chief reasons for the sudden popularity of Keynes in the 1930's. Politicians since Teddy Roosevelt had been promoting state intervention in the economy to "control" capitalism. Progressivism predated Keynes by decades. All Keynes did was give politicians academic credibility for what they already wanted to do and had been doing for decades. It appears that believes that providing academic cover for political ideas is the only reason for economics to exist.

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