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# The State of Mainstream Economics and the State of the World

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# Structure

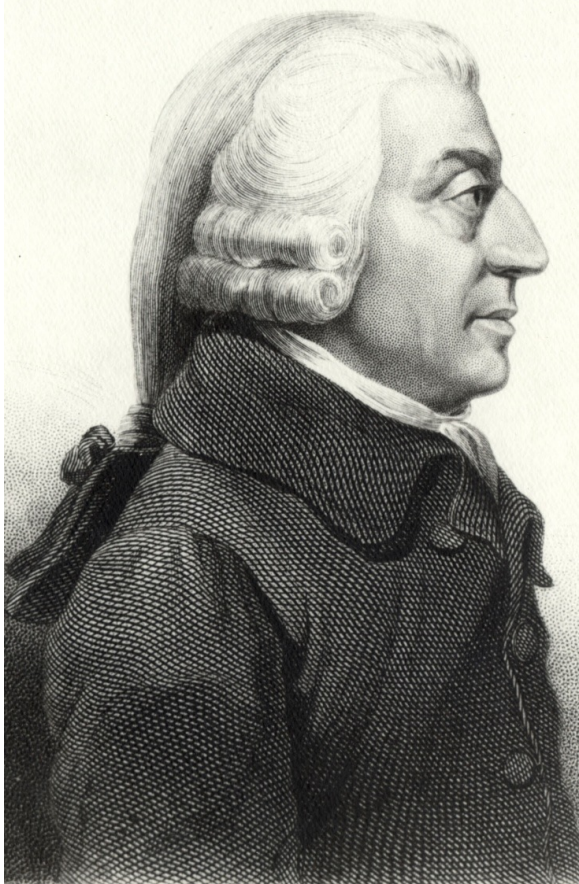
- Intro
- Micro
- Macro
- Growth Economics
- Business Economics
- Morality?
- Concluding Comments

# Mainstream economics

- Definition
- Has expanded to embrace behavioural economics and narrative economics

# Microeconomics

## “The invisible hand”

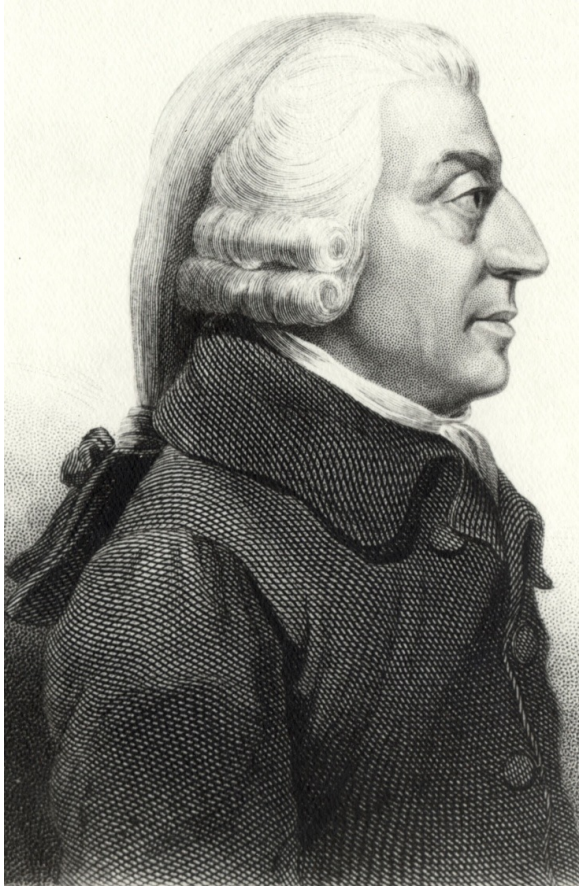


Adam Smith: *The Wealth of Nations* (1776)

“It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest...

We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”

# Second most famous quote from Adam Smith



“People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices”

- Economics courses spend much more time on market failures & distortions than on market efficiency
  - Market power, externalities, free rider problem, asymmetric information
- Probably true to say however that there is an undue reliance in policy discussions on the assumption of competitive frictionless markets
  - “The frictionless competitive market model implies that involuntary unemployment cannot exist, except when created by institutions like the minimum wage. Such a view is not ‘conventional’ at all”
    - LSE economist Alan Manning (Journal of Economic Perspectives 2021)

- Government intervention can possibly increase efficiency in the presence of market failures/distortions
- But does it?
  - Government failures (principal agent problem; regulatory capture, etc.)

# MACROECONOMICS

- “This long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean will be flat again”
  - Keynes, *A Tract on Monetary Reform* (1923)



# Extrapolation to Development Economics and Structural Change

- Importance of the political consequences of the path chosen in seeking to negotiate the shift from one long-run equilibrium to another

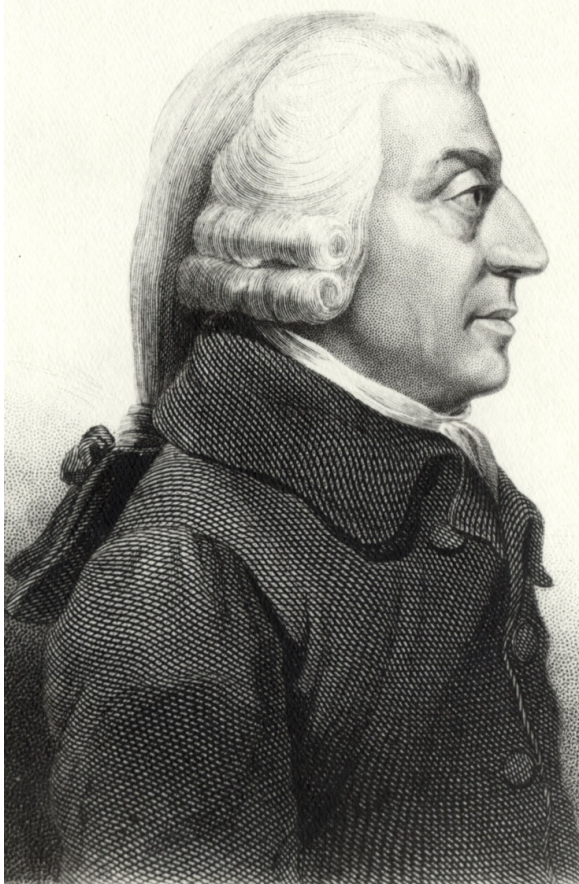
# Growth Economics

- Do economists ever maximise anything other than subject to specified constraints?
- Body of work on convergence however might be read as saying ‘focus on these key right-hand-side variables’
- New field of ‘emotional prosperity’
  - Kahneman, Krueger, Layard, Oswald, Stiglitz Commission (2009) etc.

# Business Economics

- Rise of Big Tech and resurrection of the concept of ‘countervailing power’
  - Acemoglu and Robinson, *Power and Progress: Our 1,000-Year Struggle Over Technology and Prosperity*
- Imperfect competitors choose how to position themselves in the market
  - including possibly by their ESG attributes, as in the case of the Quaker industrialists of the Victorian era (and Henry Ford and Guinness)

# Morality: Adam Smith again!



“How selfish soever man may be supposed, there are evidently some principles in his nature which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it”

**Adam Smith: *Theory of Moral Sentiments* (1759)**

- Complex interactions between morals and economics:
  - Introduction of incentives for blood donations turned a noble act of charity into a painful way to make a few dollars, and it wasn't worth it
    - Chicago economist Steven D. Levitt

- “A satisfactory society cannot be realised on the basis of an exact and narrow adherence to the law: there needs to be a significant body of citizens who are prepared to take into account in their actions the common good or wider interests”
  - Iseult Honohan, *Civic Republicanism*, Routledge, 2002.
- It is the job of politics rather than of economics to set the priorities for society

# Concluding Comment

- It shouldn't take 4 or 5 years to convey the basics of how mainstream economics analyses the world
- This can be done without mathematics (and without much graphical analysis beyond Supply & Demand) in a one-semester course