

**UNEDITED TRANSCRIPT**

# Can Economics Save the World?

*Featuring Wally Adeyemo, Katherine Baicker, Abhijit Banerjee,  
Steve Levitt, and Michael Greenstone*

# Can Economics Save the World?

**DANIEL**

**DIERMEIER:**

Good evening. Good evening. My name is Daniel Diermeier. I am the provost of the University of Chicago. And it is my distinct pleasure to welcome you to tonight's event hosted by the Becker Friedman Institute for Economics entitled Can Economics Save The World? Given the crowd assembled here, I have a feeling two thirds of you are going to say, obviously, and leave, and that's the end of the event. But while the title of the event may be a little bit provocative, it's appropriate for the Chicago economics community, where, indeed, most of us believe that the insights that can come from economic models and tools and analysis, indeed, can have a positive impact on the world.

At the University of Chicago, we believe in open, rigorous inquiry where people of diverse perspectives engage in intellectual challenge and debate around important issues. And tonight's discussions, I think, will nicely exemplify this commitment. We have an extremely impressive panel this evening. And in particular, we are pleased to welcome Abhijit Banerjee, a recipient of the 2019 Nobel Prize in economics. Thank you for visiting us on campus and meeting with our faculty, and we look very much forward to hearing more about your work shortly.

I would also like to thank Michael Greenstone, director of the Becker Friedman Institute, and Erik Hurst, deputy director of the BFI, who made tonight's event possible. Translating research into impact, whether in public policy or in the private sector, is a key part of the university's mission. And I look forward to hearing tonight about the opportunities we have as scholars and students to improve outcomes and the challenges and opportunities for evidence-based policy making. With that, let me introduce our next speaker.

Sowmya Karun is an Obama Scholar at the Harris School of Public Policy. The Obama Foundation Scholars Program is a collaborative program between the Obama Foundation and University of Chicago Harris School of Public Policy. Students that participate in the program are rising leaders from around the world who focus on issues of global importance, have a demonstrated commitment to advancing the public good, and want to accelerate their impact.

Sowmya fits these criteria very well. She works at the intersection of development and data and technology innovation. Most recently, Sowmya worked with SocialCops, a startup where she advised a spectrum of public and development stakeholders from around the world on implementing data and technology solutions on the ground with the goal of increasing their

impact. Prior to SocialCops, Sowmya was a legal and policy researcher on information and data policies and worked with the Election Commission on India.

I'll now invite Sowmya Maya to the podium to introduce tonight's panelists. Thank you very much.

[APPLAUSE]

**SOWMYA KARUN:** Thank you, Provost Diermeier. I'm Sowmya, and one of the most rewarding aspects of my experience here as a public policy grad student at the University of Chicago has been the opportunity to hear and learn from, and be inspired by, the rich experiences, perspectives, and insights of experts and pioneers in very diverse domains. And therefore, this evening I'm honored to introduce to you such an illustrious panel.

We have Wally Adeyemo. He is the president of the Obama Foundation and has built his career convening governments, companies, and other organizations to move together in achieving common goals. Wally has donned many hats. He served as President Obama's senior international advisor and has held several senior management positions in the US Department of Treasury, at BlackRock, and at the Center for Strategic and International Studies.

Kate Baicker is the dean and the Emmett Dedmon Professor at the University of Chicago's Harris School of Public Policy. She is a leading scholar in the economic analysis of health policy, where her research is primarily focused on the effectiveness of public and private health insurance and the effect of health sector policy reforms. In addition to being an elected member of the National Academy of Medicine and the Council on Foreign Relations, she also serves on the Congressional Budget Office's panel of health advisors.

Steve Levitt is the William B. Ogden Distinguished Service Professor in the Kenneth C. Griffin Department of Economics at the University of Chicago, where he co-directs the Becker Friedman Institute's Price Theory Initiative. Steve has also co-authored *Freakonomics*, which spent two years at the *New York Times* Best Seller list, and *SuperFreakonomics*, which together have sold more than 7 million copies worldwide.

Michael Greenstone is the Milton Friedman Distinguished Professor of Economics at the College and the Harris School of Public Policy at the University of Chicago. He is the director of

the Becker Friedman Institute of Economics and the Interdisciplinary Energy Policy Institute at the University. He previously served as the chief economist for President Obama's council of Economic Advisors and on the secretary of energy's advisory board.

And finally, I am thrilled to invite on stage Dr. Abhijit Banerjee, who is the Ford Foundation International Professor of Economics at MIT. He's one of the co-founders of the Abdul Latif Jameel Poverty Action Lab, or J-PAL. He is also the author of several articles and five books, including *Poor Economics* and his latest book, *Good Economics for Hard Times*, which he's going to be talking to us about today. And maybe some of you don't know, but he was recently awarded the 2019 Nobel Prize in economics along with Esther Duflo and Michael Kremer for their experimental approach in alleviating global poverty.

I now invite Professor Banerjee to the podium.

[APPLAUSE]

**ABHIJIT**

**BANERJEE:**

Thank you. I'm slightly overwhelmed. I wasn't quite expecting this audience. It's not what happens when I usually speak. So I wanted to, maybe begin by-- since I was talking about this book, I wanted to begin by reading a tiny bit from this book, because it, maybe, gives context to why we decided to write the book. So I read--

"10 years ago, we wrote a book about the work we do. To our surprise, it found an audience. We were flattered, but it was clear to us that we were done. Economists do not truly write books, least of all books human beings can read. We did it and somehow got away with it. It was time to go back to what we normally do, which is to write and publish research papers. Which is what we were doing while the dawn light of the early Obama years gave way to the psychedelic madness of Brexit, the Yellow Vests, and the wall. And strutting dictators, or their elected equivalents, replaced the confused optimism of the Arab Spring.

Inequalities exploding, environmental catastrophes and global policy disasters loom, but we are left with little more than platitudes to confront them with. We wrote this book to hold on to hope, to tell ourselves a story of what went wrong and why, but also as a reminder of all that has gone right. A book as much about the problems as about how our world can be put back together as long as we are honest with the diagnosis. A book about where economic policy has failed, where ideology has blinded us, where we have missed the obvious, but also a book about where and why good economics is useful, especially in today's world."

So economics is useful in lots of things. We're talking about many things now, many things where I think economists have a great deal to say. And I think what's striking about it is how little we are being listened to. Here's a graphic that should give you pause.

[LAUGHTER]

This is a graphic where-- if you can't see the small print, the economics are third from the bottom. We did this survey where we asked people, how many of you trust economists about their subject of expertise-- meaning economics? And the answer is 25%. Nurses, 84%; doctors, 82%; weather forecasters at 51%.

[LAUGHTER]

So we're really kind of remarkably-- there are people below us. They're all politicians.

[LAUGHTER]

Now, that's a combination of several pieces. But one very key piece of that is that on issues that we often have views on, and in particular issues on which most economists agree, it turns out that the rest of the world just disagrees. And it's sort of striking.

This is from a comparison of one of our surveys with the IGM Booth School Panel of expert economists, which includes both Michael and me and Kate. So our viewers, you can see, we all agree that imposing US tariffs will not improve American well-being. 100% said-- nobody said it will improve it. Some people were unsure, but almost everybody. About 35% of our respondents disagree with that. They think tariffs on steel and aluminum-- I don't even know how people come to such conclusions. What do they know about steel and aluminum? But that's a view.

Most economists like migration. When our panel was asked this, essentially only 9% disagreed. But if you look at average British people-- these are polls-- around 44% think migration is much too high. Another 25% think it's a little too high. But basically, most people think there's too much migration, except economists.

So the point that I'm trying to make, which started us, is why is there such a systematic divergence between our views and that of the rest of the world? I mean, there's one obvious, and maybe tempting, answer, which is that we are right and smart. But it may be not a helpful answer. It doesn't get us very far when you take that position. You're a bit-- that's it.

So this is another one. Economists, Michael will tell you, all believe in carbon taxes. The French Yellow Vests are specifically making the point here that carbon taxes just vanish into the pockets of the rich. So they'd rather not have carbon taxes, which they pay and the rich get. This may or may not be true, but it's a very systematic pattern here, which is that we economists believe in one set of very clear policy predictions, and then the rest of the world just plainly disagrees.

Why don't they trust us? Well, part of it is, of course, we are wrong. And in many ways, I feel like I avoid this mostly by not making pronouncements. This is a graphic that *The Economist* published. It's a great graphic, because it said, 21 months ahead of the date, the IMF predicts world economic growth. And what's the error in that? That's about three percentage points. What would be the error if you predicted-- so if you predicted a random number, it would be a bit more, 4%. If you predicted 4% growth all the time, you'll be off by about 3%, and so on.

So essentially, roughly, as a profession, we do as well as predicting permanently 4% growth. That doesn't build credibility, as you might imagine. So that's one problem.

But I think there's a deeper problem. The deeper problem-- and that's why we wrote the book-- is that I think as economists in the public domain, most of us don't speak, including me. Mostly I try to avoid when people ask me questions. And when we do speak, we speak as oracles. We pronounce. We say, this is good. There will be rain in the spring, if you remember the movie reference. We have an urge to speak from top down and give the answer.

I think one thing we thought maybe would help is to explain how we get to the answer. Why do we believe that migration, which is such a big issue now, why doesn't it have the effect? I mean, many people will point out, this isn't what economics teaches you. The demand curve slopes down. You move the supply curve. Prices fall.

So why doesn't it happen? And that has an answer. The answer, it requires going from the first supply demand item to thinking a little bit more about it. But that's the exercise we often don't do. I think economics is very powerful in some ways, I think more powerful than we recognize. I think too many people believe in that supply demand diagram, in a sense, and not the Econ 102 diagram that should come after that. And that's part of our problem.

Attempt in this book was to write down Econ 102, in a sense, in a way that might be that legible to people. I don't know whether we succeeded, but at least that was the ambition. Let

me make a few maybe salient takeaways from the book and then wrap up with a few thoughts of why those might be significant.

So I think the first place where I think economists often go wrong is we tend to argue, and people tend to believe that financial incentives are extremely important. In fact, strikingly, economists actually believe this less than the rest of the world. So when we asked the question, would the average person stop working if you put a tax on people? Economists have a fairly nuanced answer to that question. The rest of the world really believes that everybody is going to stop working if you put taxes on people. And I think that pattern persists and that economists have now convinced the world.

So another fact that I think many people believe is if you open the doors to migration, everybody is going to get up and leave. Economists, again, believe that less than the rest of the world, actually. And on that one, they're right. In the Greek crisis of 10 years ago, roughly in some youth groups, unemployment rates were 60%. Any Greek person could get up and leave and go to Germany and get a job. 60,000 Greeks left over the whole period. People just don't move. In some sense, I think that's a striking fact.

So I think in some ways economists have convinced the world very successfully that economic incentives are extremely powerful. In fact, they're less powerful than we think. And we know why also. But unfortunately, we sold the world a message, they bought it, and now we're a bit stuck with it.

But I think that it's worth, I think, emphasizing what we have learned. So one of the things the work that we do is do a lot of randomized controlled trials. These are, for example, from randomized controlled trials. This is labor supply. One very common economic idea that I think many people have bought into, I think more than economics even, is the idea that, if you give people free money, they're all going to sit on their asses and watch TV.

These are from randomized controlled trials of unconditional cash transfers to people. What happens to labor supply? The gray bars are the people who didn't get the cash. The purple bars are people who got the cash. And one is hours worked, hours per week. They had different numbers, but the first order fact is that the two bars are the same height. And these are across the world. You can look at a lot of studies. People just don't seem to have this urge to retire when they get some fairly significant amount of cash.

This is from the US, the Alaska Permanent Fund, which gives every Alaskan some cash. And

again, the people who got it and the people who didn't, you don't see any difference. And in a sense, people know that. What's really striking is people know that. People know that in fact they don't do it.

I told you the answer to what people say when you ask them the question, what would other people do if you put a tax on them, or if you give them free cash? If you give them free cash, they'll all retire. If they lose their job, what will they do? They'll move. All the economic incentives. What would you do? Oh, I wouldn't move. I will never quit my job just because I got some cash. I'm not going to. I'm not going to.

So everybody actually-- about themselves they actually know the truth, which is that the elasticities of all these things, to use the economic jargon, are low, that people don't respond very much. This is something that people actually have internalized in their own lives. They know that just the fact that I lost my job doesn't mean I can leave my friends, my family, my community and just go away. But other people will do it. And because other people matter for economic policy, this informs their view of what good policies are. So it's actually quite dangerous to have these.

The second and related fact, which is the flip side of people not responding to incentives very much, is that the economy is sticky. And how sticky? Well, a lot more sticky than it used to be. So these are numbers from a long comparison-- 1948. 13.6% of the US population moved within the same county. 6.9% moved from county to another county within each year. That number is now almost half. Americans don't move as much. De Tocqueville, who was famously a celebrator of American mobility, talked about how Americans move all the time. They move less than Europeans now.

And international mobility-- well, worldwide, international mobility is roughly what it was 40 years ago. The fraction of long term migrants in the world population hasn't really changed. It goes up and down. When there's civil war in Syria, people move. This is from a Somali poet, and she says it exactly right. "No one leaves home unless home is the mouth of a shark." And I think that's key-- push get migrants going, pull does very little, or relatively little.

The third lesson I want you to take away is that, in some ways, economists have this idea that preferences are fundamentals, we should fight to protect our right to our own preferences. Here's an experiment that I love, that was done at the University of Zurich. It's an experiment where they pulled in a bunch of bankers. And they took the bankers, and they did two things.



For some of the bankers, they asked them to reminisce about the last weekend. And they usually talked about the fact they played golf or something. The other half of the bankers, they said, think about your professional role.

And after that, they asked them both policy questions. So when you get the bankers to think about golf, they don't really think social status is mostly economics. 40% say that-- only 40%. If you tell them that they're bankers, that goes up a bit. What's really striking is when the same thing happens and they're asked to play a particular game-- what's a game? Go to a closed room and toss a coin, and tell us how many tails you get. We'll pay you by the number of tails.

So most people, if you prime them to be a normal person, you have the remind their golf, roughly the number of tails is roughly 50%. In other words, they tell the truth. But if you remind them that they're bankers, that number goes up to 60%.

[LAUGHTER]

Preferences are what we are made to think we are. And I think that's very important, because I think we're so frightened by identity politics, partly because we think these are innate in people's makeup. But in fact, I guess part of the implication of this view, which we take at some length in this book, is that your sense of who you are is relative to what's going on in the world, what pressures are on you, what are you encouraged to think about, what are other people thinking. All of those things matter-- who you are meeting on a given day.

And I think it will be extremely-- I think this idea that preference is somehow fundamental is likely to just trap us into a place where we don't want to be. I think we want to think about why people have the preferences they have now, why somebody voted for Obama then voted for Trump. Those are questions we should ask rather than take as given that somehow this person has become racist-- I think ascriptive categories.

Finally, I think the last thought I want to leave you with is that I think, as economists, we do a very poor job of thinking about what is value. In particular, I think one of the thoughts that informs a lot of our policy thinking is people-- when, for example, trade moves jobs out of North Carolina, our natural thought is people should move. And I already said people don't move. But people don't move partly because they're now at that--

We forget that it's not just that they lost a job. They also lost a life. They were in that town for 20 years. They had friends, they had status, they had connections. And all of those things

matter. And I think when we do social policy, it's extremely important to think that what we are trying to achieve is not just the fact that the people are going to be-- they could move somewhere else and maybe get a little less money, but they can survive. But somehow we have to make them whole in some important way, or else that they will be resentful, and they will die.

One of the things that is very striking in the US in the last few years is among white males and females, the death rates are rising. That's a striking fact. The last time that happened was in the influenza epidemic of 1919. It's to 100 years it hasn't happened, the death rates are rising. So we're in this--

So these are four thoughts that we pursue in some detail in the book. And that connects partly-- and maybe I'll elaborate on this-- on why our economists' reaction to trade is often mistaken. We don't understand why it causes so much damage, why we are so reluctant to raise taxes-- and actually, voters are so reluctant to raise taxes-- why we are so reluctant to fight climate change, why we are so keen to make sure that nobody gets free money, and I think why we have conceived of social protection, especially in the US, as so anathema to the idea that people value dignity.

So one that slightly, maybe, pompous thought, let me conclude. Thank you.

[APPLAUSE]

**MICHAEL GREENSTONE:** What I want to focus first on was, one theme of the book seems to be that we actually know a few things-- economists. And yet, frequently the world has a difficult time, or chooses not to follow our wisdom. But you actually have a couple of examples from your own research that have been quite influential, and the world has followed through. I can think of teaching to the right level. And I wonder if you could talk, or try and connect, those two. Why does it work sometimes, but most of time, it doesn't?

**ABHIJIT BANERJEE:** I don't even know that it works. Most of the time, it doesn't. I mean, I think we have-- as I said, the supply, demand graph has perhaps inordinate influence, in some ways, I think, more influence than it should. So I think we don't pick where we have influence.

But going back to the example you mentioned, one thing that actually was-- I think you make it sound like it was actually more of a triumph than it was. One piece of work that we did over many years was to try to figure out why is it that children all over the developing world seem to

be way below grade level? I mean, half of fifth graders in India read at second grade level. Half of them do math at the second grade level.

That's a surprising fact given that, at this point, most children go to school. It's not that they don't go to school. 95% go to school. This is not because they're not going to school. Schools are there. The teachers sort of teach.

So we did lots of randomized control trials trying to figure out what the diagnosis was. And some of those were obvious things, like let's cut the teacher-student ratio by half. It did nothing. Or doubled the teacher-student ratio is a better way to say. We doubled the teacher-student ratio. Nothing happened. We provided textbooks. Nothing happened. So we started by failing many times.

And part of the problem was I think we missed the obvious. The obvious was that the teachers actually had bought into their job description. The job description was, you have to teach the curriculum. So they taught the curriculum. It doesn't matter that the kids have no idea what they're saying. They taught the curriculum. So if you're in fifth grade, you teach the fifth grade curriculum. The fifth grade curriculum, to someone who can't really read, is sort of irrelevant. But nonetheless, that was their job. They did it.

So we did a set of randomized controlled trials where we tried to manipulate that. We tried to bring in external people whose job was to not teach the curriculum but to help kids catch up. When we did that, kids catch up very, very fast, so fast that you'd almost imagine, why is it that they're not doing it? But then they don't do it. And we tried to give the same training and the same impetus to the teachers. And the first order of fact, is that it didn't do anything.

And eventually, we figured out that what we had to fix was we had to bury ourselves in the next higher level of the education system. We had to get the teachers bosses to tell them that it's OK sometimes to not teach the curriculum, and you have to teach this other thing. And when we did that, then it does work. So it was embarrassingly simple. It took us only 15 years to figure this out.

[LAUGHTER]

But I think the advantage of something that's embarrassingly simple is that once it's actually credible, it's not so hard to explain to people. We didn't have an extremely sophisticated message to deliver. So that's one rule, which is, I think--

**MICHAEL** Keep it simple.

**GREENSTONE:**

**ABHIJIT** --if you have a simple message and clear evidence of success. I think randomized controlled  
**BANERJEE:** trials, despite all the ways in which we manage to complicate them, are actually very simple things. And even education officials understand them in Malawi. You explain them, they understand what it is. And that a very nice thing about that.

**MICHAEL** I'm going to turn to Steve now. So Steve, many mornings I wake up and I think, oh my  
**GREENSTONE:** goodness, if Nancy Pelosi or Mitch McConnell would just call me, I have an idea. And they're just desperate for my idea. But I go to my office, and they never call.

[LAUGHTER]

**STEVE LEVITT:** They don't call me either, so--

**MICHAEL** Well, I think you're ruining my question. But--

**GREENSTONE:**

[LAUGHTER]

--you've published over 7 million copies of *Freakonomics*. You have a *Freakonomics* blog and podcast. I think it's more likely that they're going to pick up the phone and call you. It's not hard for you to get in rooms. I know, at the same time, you probably have many ideas on making the world better too. You've had some frustration with that you get there, you explain it, and then nothing happens. Is that true? Why is that? We have all this wisdom to share. You only have to ask us.

**STEVE LEVITT:** Yeah. So it's certainly true that nothing ever happens.

[LAUGHTER]

Somebody asked me the other day if I could name the most important policy that had changed as a result of my life's work. And I could only think of one law change that I have been responsible for. There's a small town in Alaska that passed a law that said it was illegal to walk drunk based on my analysis of the risks of walking drunk. And that's literally the only policy thing that I could say.

[LAUGHTER]

**MICHAEL** Was it the mayor who called?

**GREENSTONE:**

**STEVE LEVITT:** Who called me to ask me? No, it was somebody like you.

**MICHAEL** OK.

**GREENSTONE:**

[LAUGHTER]

**STEVE LEVITT:** So honestly, I think behavioral change is the hardest thing around. So getting people to change their belief is hard. I think even harder than changing beliefs is getting people to change what they do on an everyday basis. And my own experience of the last 10 years is that there have been many cases where I've convinced somebody in power that there was something worth doing. And that turns out to be the single easiest step in getting actual change, because the actual change comes when you get people, in their daily lives, to change what they do.

I'll give you an example. I'm trying to do something right now the Cook County Sheriff. And over a year ago, I met with him. He said, I love what you would like to do. I would like it done tomorrow. And it has been a year, and I've had-- I don't know-- four people working full time. I've spent a lot of time myself. We have done nothing. And it's not because the person in charge doesn't want it. It's not because we aren't putting all the resources and thoughtfulness and effort we can. It's just incredibly difficult to get things done.

**KATHERINE BAICKER:** You've written books that millions of people have read, will be reading. Most of us write articles that we can't get our spouses to read.

[LAUGHTER]

And then we're surprised that the world hasn't changed.

**ABHIJIT BANERJEE:** I do.

[LAUGHTER]

**KATHERINE** And so you've gone one step further in talking to policy makers, which-- they don't want to

**BAICKER:** read my papers. I don't know why. But it's understandable that we have to translate things into a usable format for people who are busy doing lots of other things. But I think most academics have a reluctance to boil down this very nuanced, complicated, footnoted, caveated, sometimes on alternate Tuesdays, but with standard errors, finding that we have to say, well, the answer is you should double that.

We have to sacrifice some of the careful work that we've slaved over and some of the subtlety for which our colleagues reward us to make something useful for policymakers. And that's a choice that not everyone wants to make. But if you want someone to be able to act on your findings, you have to make them not only usable in a time when someone can use them, but you have to give up on the second, third, fourth order points to just convey the one thing that might actually result in a change.

**STEVE LEVITT:** Then there's almost no incentive for academics to take any of these steps that Kate's talking about. We're not rewarded, I think, either directly or indirectly in general for doing it-- neither financially, nor in social ways, or prestige or anything, I think. So I don't think it's a surprise that academics haven't put a lot of effort into this.

**ABHIJIT BANERJEE:** I guess I disagree. I feel like this is my life, so I spend lots of time trying to persuade people of something or other, mostly failing. But I think it's such a fun thing to do. I mean, you sort of learn lots of things. After all, in the end, at some point in your life-- Steve, you've published enough papers.

It seems like this is a more challenging thing to do. I find it fully engrossing, actually, when I'm in that policy process trying to think of, how do I come up with the next argument to bolster the point I am making, and how do I get the person who's falling asleep to listen, and all of the others. I actually think that the rewards are great, but they're not financial.

**WALLY ADEYEMO:** I think that, as somebody who was a policymaker and had to engage with academics, the reality is that your incentives are different than mine. Your time, to me, is infinite compared to my time. If I'm working for a president, they're going to serve four years. I'm probably going to work for them for 18 months, and I'm trying to find a solution that I can take from your work-- a policy brief-- and apply it to a problem I have today.

So I don't have the time for the nuanced back and forth. What I really need is, I need a two-pager that explains what it is I need to convince my boss of so the president understands that well enough to put it into the budget. And I don't know that the incentives are aligned in a way

that you're teaching academics how to do that, to produce that kind of research.

**ABHIJIT  
BANERJEE:**

J-PAL exists partly for that purpose. It exists, and we have superb people in J-PAL who do exactly that, which is they produce two-page, one-page, six-line, whichever version you need, and then keep producing them. In a sense, one of the things we've learned is that it's the long haul that pays. If it takes a year, it takes a year. I hate to say this to you, Steve. I think you're continuing for a year, and maybe it's going to take one more. But I think it often takes a long time.

But the change is discreet. Policy is also, precisely for the same reason, which is that you have only a moment with the boss. The boss is only going to pay attention once. If it gets through to him, policy will change. So it's always discreet, and often, it's going to be like, this, push back; that part, pull back. And you have to be prepared to be patient at that point, produce the memo that needs to be produced at that point, which answers irrelevant comments that nevertheless need to be addressed, et cetera. And it is only that process that gets you there.

So I tend to be rather impressed by how many things--

**MICHAEL  
GREENSTONE:**

That's exactly my experience. I also think-- we used to be colleagues. I never once heard in a MIT tenure decision case a discussion about, well, this guy really ground it out and wrote the fourth memo about why the redistributive elements of this policy were not so bad. So is that something was wrong with the economics profession?

**ABHIJIT  
BANERJEE:**

It's a hard question. I mean, I feel like maybe the tenure decision happens early enough in your life that you can spend some time earning your credentials, and then there's still the rest of your life to do everything else you want to do. One nice thing about tenure is that it's not usually reversed.

[LAUGHTER]

**MICHAEL  
GREENSTONE:**

I agree with--

**WALLY  
ADEYEMO:**

--to talk about that for a moment--

**MICHAEL  
GREENSTONE:**

Oh, go ahead, Wally.

**WALLY** --one of the challenges you have, and I've seen this challenge. When we wanted to recruit  
**ADEYEMO:** professors to come work in government, the clock would tick. In two years, the university would say, you can make the decision of either staying in the government serving your country or coming back to the university, or you'll lose your tenure. So I do think that there is, to a degree, the need for us to think through, what does it mean for an academic institution to be engaged in this work? Because I don't know that they are properly incentivizing professors to go do that work.

**ABHIJIT** I think that's probably fair. I think there is a certain amount of space to do it, but maybe there  
**BANERJEE:** should be more. I don't argue.

**MICHAEL** Kate, well, you're a dean. You get to set tenure policy for a whole public policy school.  
**GREENSTONE:**

[LAUGHTER]

Along with the provost. Do you think we're too narrow in what we focus on?

**KATHERINE** There is no escaping the fact that the work anyone does to translate academic research to  
**BAICKER:** policy, to talk to policymakers, to produce the brief, that's fewer refereed publications you're going to write. And I couldn't in good conscience advise a junior faculty member to spend a lot of time doing that. And that is a general failure in academia, or not a failure, depending on what you think our mission is overall.

Post-tenure is a time when you have so much more freedom to either invest in big projects that might have uncertain payoff or choose to allocate a substantial amount of your time to doing that translational work. And as a policy school, we especially value that impact. We want people to be talking to the media. We want people to be talking to policymakers. We want people to be testifying. That's really time-consuming.

So I think as a university, we're working to do more to provide the inputs that let faculty members be more effective at that, because not everyone enjoys talking to policymakers. Not everyone has the skill set to write a persuasive op-ed. The skills to write a really good academic paper are different from the skills to talk to human beings. And we might have an opportunity as a university that I think BFI is working on, the Harris School is working on. The university writ large is working to provide wrap around skills, to either train faculty members to



be better at it or to provide some extra talent to do that translational work.

**STEVE LEVITT:** I think at every step of the academic funnel, we select against the characteristics which will make people good at what Abhijit has, against all odds, turned out to be good at, which is grinding, and convincing people, and wanting to, from the very first economics courses we teach, which are highly technical, to the standards we use in PhDs, to the way in which we grant people tenure.

Now, that's not necessarily bad. I think it would be completely misguided to suggest that the point of academics is to maximize the amount of on the ground impact you have. I mean, it would be silly, but, I think, especially in economics. So what's happened in economics is the outside market for economists who are, say, 35 years old, just got tenure, to do a lot of really fun and impactful things outside of academics has led many of the people who have those kinds of skills to leave academics to go, say, work at Uber, or Amazon, or something like that.

And as a consequence, what's left behind in the profession is, I think, an even stronger push towards formalism and the kinds of things academics do. It's one of those unintended consequences of having outside options for people who have the exact skills we're talking about, actually makes academics kind of double down on a different kind of excellent, wonderful activity. But it's not the activity that will create change and lead to high numbers on trust of the people and what not, the kinds of things that Abhijit cares deeply about.

**KATHERINE BAICKER:** But the good news is we're still beating politicians on that, which is a pretty low bar these days. And it's actually something I worry about a lot from a policy school perspective, which is the general disregard for expertise. And we all spend all of our time developing what I think is real value in deep understanding of complicated problems.

Public policy problems are rarely black and white. There's always a nuance of winners and losers, and trade-offs and alternatives that have to be weighed with a complicated social welfare function in mind. We're specialists in that. It would be nice if we were able to translate that to influence real policy.

And there aren't a lot of trusted sources of unbiased information, so I think one of the challenges, as an academic, is toeing the line on what our research shows versus what's preferences and what it doesn't show, and saying, the evidence suggests that these are the pros and these are the cons. But as an academic, I can't tell you how you value those things and what you should do as a policymaker. These are the inputs. Elected official can now make

a decision based on those inputs. If we want our research to be influential, we have to jealously guard our status as unbiased purveyors of solid information.

**MICHAEL GREENSTONE:** Wally, does that sound right? You're probably the closest to the elected official here.

[LAUGHTER]

**WALLY ADEYEMO:** That's a dubious thing to say. So I think the reality, at least from my perspective, in terms of what I think about my time in being a policymaker-- the place where I saw elected officials most likely to rely on research is in things that are very hard to understand. So I think that's why you look at like medicine, like your nurse or your doctor example.

The place for me where that came into play was I spent a great deal of time on trade, especially on foreign exchange policy, thinking through what would be termed in the trade nuance as currency manipulation. And this was a place where people had very strong views about what was happening. But in terms of what should be done, they largely deferred to the experts in terms of what the options were, simply because everyone was nervous about not understanding the space well enough.

Versus another place that I worked in, which was on consumer finance issues, helping to set up the Consumer Financial Protection Bureau. There was a great deal of academic research in this area, but it was a place where everyone thought they were an expert. I think about it in the same way that you think about teaching. Everyone thinks they're an expert in being a teacher. And when that becomes the case, no matter how much research you show people, their beliefs are going to push you forward.

So for politicians, I found that to be exactly the same. In places where they have strong conviction and they think they have some kind of personal knowledge, they're more likely to move forward without research. But in the places where they have spent little time thinking about monetary policy, they're going to look to the people who are experts to at least color their ultimate decision.

**MICHAEL GREENSTONE:** I wanted to turn to one key finding, which is suffusing this conversation, the incredibly low regard that economists seem to be held in. Better than politicians, Wally, but not better than most other people. What is it we're doing wrong? Why is that? I mean, after all, we are on the white horse riding in with the answer all the time. How could people not see that?

[LAUGHTER]

**WALLY** You're looking to me for the answer?

**ADEYEMO:**

**KATHERINE** I'm looking to you.

**BAICKER:**

**MICHAEL** No, you're going to sit in judgment. These guys have to answer.

**GREENSTONE:**

**WALLY** I appreciate that.

**ADEYEMO:**

**ABHIJIT** I've already ventured once, so I'll let Steve and Kate.

**BANERJEE:**

**KATHERINE** OK. Academics in general, and economists in particular, are not necessarily known for their ability to read a room. And so storming in with the answer-- why can't you see it-- that goes over really well in an academic seminar, does not go over well at a cocktail party or in a policy forum. So there's a nuance in the delivery of the message that we are not necessarily always attuned to.

**BAICKER:**

Plus, I work in health care. My own area is in looking at things like Medicaid. And the kind of analysis that we do can seem very cold-hearted in a way that I think is unfair. I stand up and talk about the effects of expanding Medicaid, and the costs and the benefits. And an audience member will stand up and say, yes, but my child has cancer. And the economic analysis of the pros and cons of the public policy to cover that person's child, that's heartless. It feels inhumane to talk about that.

And people say, you can't put a price on your health. And of course, as economists, we will happily put a price on anything.

[LAUGHTER]

And that seems like you are not caring about the people who are underneath, but I always argue, if you're not willing to put a price on it, you're doing a terrible disservice to the people

you are purporting to care about, because I better be thinking hard about what's more important for that dollar. Is it health insurance? Is it education? Is it housing? Is it food? You have to make trade-offs among things. Economics is about scarce resources and trade-offs, and you have to make some apples to apples comparison. You can call it apples, you can call it dollars, but you have to make that trade-off.

But in a non-technical audience, when people are not thinking in these abstractions, it really seems inhumane. And that makes people disregard, I think, the underlying message. And so we have to be more thoughtful about how we convey those answers to take the real human cost that people bring to the conversation into account.

**STEVE LEVITT:** What Kate said is exactly right, that there's a sort of repugnance to non-economists that comes with focusing on trade-offs in areas where people take issues too personally. I think another reason, among probably many we could come up with, is that most people, when they think about economists, think about the macroeconomy and fluctuations in the macroeconomy. And first of all, most economists don't studied the macroeconomy. Second of all, the economists who study the macroeconomy have, by and large, not thought of it as their responsibility to have any knowledge about predicting the future of the economy or, really, controlling the--

I mean, macroeconomics, for a variety of reasons, in the 1970s made a turn to being mathematical and self-referential, because the problems, I think, turned out to be-- the set of tools we had didn't turn out to be good at solving the problems that society thought that macroeconomists should be focused on. And so I think if you put these numbers up before the financial crisis, they would've been much more favorable to economists. And I think a lot of lay people were very upset that economists hadn't had any inkling that the financial crisis was coming.

But if you talk to the macroeconomists, they would have said, look, that's not our job. Our job isn't to predict the macroeconomy. At best, our job is to explain what's happened in the past. But really, our job is to take models that have rigorous micro-foundations and to make proofs off of them that do the best you can to match a few pieces of the data. I mean, that's what macroeconomists mostly do.

And again, I don't want to make the sense that that's the wrong thing to do. It's been the choice of two or three generations now of macroeconomists to make that what

macroeconomics is. It's just not at all what the public thinks or hopes that economists should be doing.

**MICHAEL GREENSTONE:** OK, so Kate thinks we can't talk about trade-offs. Steve would like to segregate the macroeconomists in some other--

[LAUGHTER]

Which by the way--

**ABHIJIT BANERJEE:** I think--

**MICHAEL GREENSTONE:** I won't express my own views on that.

**ABHIJIT BANERJEE:** --I want to go in Steve's direction, in the sense that I feel like Kate started being too nice to economists. I do feel that, in general, very quickly-- I mean, I think there are a lot of ingrained habits that we fall into. GDP is one of them. We often forget. I think with trade we've made this mistake systematically, which is that trade is one where the gains are diffuse, and the costs are concentrated.

Some people's lives are destroyed. And I get my shirt for \$2 cheaper, which I'm sure is also good, but these are not comparable. I think we treat them as comparable, and most people think, you crazy, or what? Somebody lost their job and their living, and their whole town shut down, and everybody you know was on opioids. And then you get a shirt. But we add those up.

And I think we do that with-- occasionally, there's a clear thought behind how we do it. There's some implicit idea that this is going to be-- transfers will be made or something like that. But that's mostly fictional. So the fiction is a good fiction sometimes, in the sense that it helps us understand things. But as a fact about the world, it's plain false mostly. So we might as well not use that fiction very much.

And I think that we're our own--

**MICHAEL GREENSTONE:** OK, so I think that's super important-- the winners compensate the losers idea, which we always have in the back of our minds. It's feasible, it could happen--

**ABHIJIT** And therefore it has happened.

**BANERJEE:**

**MICHAEL** Yeah, therefore it must be.

**GREENSTONE:**

**ABHIJIT** Yeah.

**BANERJEE:**

**MICHAEL** But in practice, it rarely happens.

**GREENSTONE:**

**ABHIJIT** And as a result, I think people are right in mistrusting us. I feel that we don't do enough of a  
**BANERJEE:** job of following through on that. How many economists have you seen yelling up and down that, yeah, that trade policy, where were the compensations paid? I mean, how many people have been protesting the lack of the compensation given to any number of industries? I mean, it just doesn't seem--

I mean, take the Trade Adjustment Allowance. This is the instrument the US government set up in the '60s to compensate people losing for trade. In the top, I think, quartile of places, meaning the top 25% places that have been most hit by trade, the average per capita transfer they got was 50 cents or something like that. The book has the number, but it's a number of that order of magnitude. Roughly the amount they lost was of the order of \$700 or something. And that's a [INAUDIBLE].

But how many economists know that it exists, have talked about the Trade Adjustment Allowance? Why aren't we shouting all the time that until we have the Trade Adjustment Allowance working, we should not free trade as an unmitigated good. Somehow, our conversation is a little bit slanted, and I do feel that has consequences.

I mean, we take this general talk about growth as being somehow this one thing. The last 40 years, we've had growth. Half the population didn't see a penny of it. And there are many, many facts like that. We might as well confront that our particular language constrains us into thinking in particular ways.

**MICHAEL** So Wally, I promised you you'd get to be judge, jury, executioner. OK, so on the table, we've  
**GREENSTONE:** got Kate, who says that people hate it when you talk about trade-offs, and so that's bad. Steve

wants to just-- our brand has been diluted by the macroeconomists. And Abhijit's view evidently, which I don't disagree with actually any of these views, is in the back of our mind, we always think, well, we're going to make the pie bigger. And that's always going to be fine because we're going to be able to compensate the losers.

Can you sort that out? And let me just add one personal observation. When I had a government job for one year, when I showed up there, I was always thinking about, got to make the pie bigger, got to make the pie bigger. And then all the discussions were actually about dividing the pie and the redistribution. It took a long time to even understand, was that a legitimate point to make, because of course we're going to find some backdoor way to redistribute the money. So now go.

**WALLY**

**ADEYEMO:**

So I think my view is that oftentimes economists fail to understand the constraints that policymakers have, and that leads you to propose policies that, if implemented perfectly, would make the pie bigger and would lead to us being able to deal with all of distributional challenges. But in reality, the constraints that exist make that impossible. So I think that is one of the challenges we face.

I think the second one that no one mentioned, that I think is also important, is that economists aren't always the best at interdisciplinary work. I think that for a policymaker, getting the view of an economist is helpful, but the reality is that you work in a world that is complicated by several other things that require the views of other academic fields, and you often are bringing those things together. Even in the rooms that I've been in government, oftentimes first among equals are the economists, but you don't have other professions or other academic fields that are speaking to the decisions you're making in the same way.

You have the CEA, for example. And they play a role in any major economic decision we make, but the rest of academia is often excluded from those rooms, which puts you on the hook for the decision making to a degree in a way that's somewhat unfair. So I think part of it is a lack of interdisciplinary work. But the biggest, I think, issue is the failure to think through the constraints that policymakers have in implementing the policies that you're recommending.

**MICHAEL**

**GREENSTONE:**

And the constraints are-- I'm not trying to--

**WALLY**

**ADEYEMO:**

The constraints are--

**MICHAEL** --put you in a narrow channel, but they're often inability to redistribute--

**GREENSTONE:**

**WALLY** I mentioned one of them is time, but I think another one is distributional challenges that we  
**ADEYEMO:** face just based on the system that we have.

**KATHERINE** And Michael and I both spent time at the Council of Economic Advisors separately. And I really  
**BAICKER:** enjoyed the time. I felt like I learned a ton and that it was really exciting to be part of that. But it  
requires working within the choices that are on the table. And we may have a really good idea.  
The best policy is A. And then if somebody says, well, your choices are C, D, and E; which one  
is better? You're like, did I mention A? They're like, yes. Yes, you did.

**WALLY** I have that conversation everyday.

**ADEYEMO:**

**KATHERINE** Let go of A.

**BAICKER:**

**WALLY** No, A is gone.

**ADEYEMO:**

**KATHERINE** Yeah. And you're like, B-- can I have B? No, your choices are C, D, and E. Pick.

**BAICKER:**

**WALLY** Yeah.

**ADEYEMO:**

**KATHERINE** And so some academics feel comfortable saying, OK, if A is off the table, I've got to just stop  
**BAICKER:** talking about A. Turns out C is the best of those three, so let's just put all our eggs in the C  
basket. And some academics think, well, C is worse than A and B. Why are we talking about  
C? And the answer is you better talk about C, D, and E, because somebody has presented  
you with some real constraints. These aren't like, I wrote down a model, and it had this  
constraint. This is the actual world's constraints.

[LAUGHTER]

And you're not allowed to just change the model. And that, I think, separates out people who  
find that government experience really rewarding versus those who say, never mind, I want to



go back to the world where I get to write down the assumptions.

**STEVE LEVITT:** Yeah, that's an excellent point. I wanted to say something slightly different, which is almost nothing in your talk surprised me. I agreed with almost everything. The one thing that I found surprising was when you described a series of problems, like immigration and climate change, as basically economic problems. Now, I don't, of course, disagree with the fact that they have enormous economic components, but I think one of the struggles is that the general perception is not that these are economic problems, but that they're social problems or political problems.

And I think economists believe we have excellent solutions. But I think climate change would be the best one, right? So I think there are very few people outside of the profession of economics who would say that climate change is fundamentally an economic problem. And I think a big part of problem solving is the answer people come up with is heavily determined by the lens with which they approach a problem. So if you can convince people that a problem is an economic problem, then they'll put an economic solution on it.

But not having gone to Washington, I'm almost sure that almost every problem in Washington is not seen as an economic problem. It's seen as a political problem. And so the lens through which you try to get things done is not in making the pie as big as possible. But it's about surviving what the *Washington Post* is going to write about you tomorrow, or getting re-elected, or keeping whatever else the objectives happen to be of the politician.

**ABHIJIT BANERJEE:** I think that's a fair point. Let me rephrase what I think. Next time I show that slide, I will rephrase it to be careful. I think the point we make in the book much more explicitly is not so much that it's an economic problem in the sense that economics has a-- whatever you do, economics is going to be a very important part of thinking it through. Every intervention-- there is no intervention that is going to not require the lens of economics. I mean, some of the interventions won't happen because of the reasons Kate mentioned and Wally mentioned.

But I think they're still economic problems in the sense that I think economics gives us a great deal of insight into understanding the consequence of any action you take, good or bad.

**WALLY ADEYEMO:** So I think, for me-- and this speaks to what I'm doing now-- I've always thought that economics is at the center of solving the challenges we face with the world. But my new boss, who's my old boss, what he would say to me is that, people don't go hungry because we don't know how

to grow food. Right? That isn't the challenge that we face. Climate change isn't an issue because we don't know how to necessarily solve it. It's because we haven't created the will amongst people to implement the solutions that exist.

So I think that you're right to a degree that in order to create those solutions, we're going to need to make economic choices and trade-offs. But getting to the point where we're willing to do that requires us to build the degree of political will we don't have today to relax the constraints that mean that A and B aren't options today to create the opportunity for us to focus on the better options.

**ABHIJIT**

**BANERJEE:**

But I do think that in the process of creating the political will, we'll have to make the case in the case of climate change that there are ways of doing it which will, A, be less costly than people imagine, because people imagine that their lives would be completely unchanged, except taxes will go up. So I think it's very important to make the case that there are mitigating mechanisms which are going to be relatively cheap on them, and that we can find ways to compensate some of them for that.

I think part of the thinking, especially-- I give you the absolute political disaster was the French tax on gasoline, a carbon tax. That's what the Yellow Vests were protesting. What happened? Well, Macron thought carbon tax is a good thing. And it never occurred to him to say that, well, the proceeds will be refunded to the poor. He did that just after he cut the wealth tax by a substantial amount. It was terrible politics.

But there was a key piece there, which was clearly economics, which is we could have specified a set of mechanisms by which that money would be refunded. And that piece of economics was missing. And that was why I think the policy was such a disaster. I think the way we articulate economics-- certain people who call themselves economists, the way they articulate economic thinking actually hurts the case for economics. These were economics in Macron's government who suggested it, and they forgot the key piece.

**STEVE LEVITT:**

One more thing I wanted to note-- so I've been around economists for 30 years. I don't think I've ever seen the word dignity used or appear in an economic context. And I welcome it. I think you're exactly right to think that one of the reasons that economists struggle is because they haven't taken a holistic view of how non-economists think about things and what is important. And I think the tone to which you brought that issue was incredibly important and powerful.

And I think it's a fantastic-- I think now, with the enormous platform that you have, I hope you will use that to stress that point, because I think it's-- we haven't found a good place to put it in our models, and so it hasn't been part of our dialogue. But it's really important.

**MICHAEL**

Actually, let me push back or find some space in between. Actually, I think it's in our models,

**GREENSTONE:**

but it's not in the way we talk about them publicly. You could take Abhijit's point about reductions in people moving around the country. That we would call high moving costs. Well, I don't think it's crazy to call that dignity, or liking the place you live, or something like that. But we don't ever talk about it that way publicly. So why is that? Or is that just too difficult to do?

**ABHIJIT**

I frankly think that there's a sense in which we are a little bit victims of the kinds of formal

**BANERJEE:**

language we create. I think, in a sense, that-- I think Steve's point, which I think is very important, very kind that he said it that way, is that, in a sense, a texture of what utility constitutes is something we are encouraged to disregard. Utility is utility. You people get it somehow. It's an [? epsilon's ?] trough on your something.

The fact that it has a particular shape and form, and that has meaning to people, is something we're encouraged to discourage or disregard. And I think that's extremely costly. I think we need a richer language in that sense. I do feel that it's part of-- and so I'm glad that Steve recognized it. We were trying quite hard to plant words that we should use more. And I think words are powerful.

**MICHAEL**

You don't think calling the constant mean indirect utility does it?

**GREENSTONE:**

[LAUGHTER]

So two things-- one, since we talked so much about the pie, of course I can't resist. BFI will have a podcast called *The Pie* that's going to start in March, I think. So be ready, and be prepared. And number two, this is a total rock star panel here. And so please join me in thanking them.

[APPLAUSE]