**Œconomia**
History, Methodology, Philosophy

**13-3 | 2023**
**The Computerization of Economics. Computers, Programming, and the Internet in the History of Economics**

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**Giulio Zanella**

**Electronic version**
URL: https://journals.openedition.org/oeconomia/16228
DOI: 10.4000/oeconomia.16228
ISSN: 2269-8450

**Publisher**
Association Œconomia

**Printed version**
Date of publication: September 1, 2023
Number of pages: 967-971
ISSN: 2113-5207

**Electronic reference**
Giulio Zanella, "Shallow and Deep Economic Thinking", *Œconomia* [Online], 13-3 | 2023, Online since 01 September 2023, connection on 01 December 2023. URL: http://journals.openedition.org/oeconomia/16228 ; DOI: https://doi.org/10.4000/oeconomia.16228

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# Shallow and Deep Economic Thinking

Symposium on Elizabeth Popp Berman, *Thinking Like an Economist: How Efficiency Replaced Equality in U.S. Public Policy*, Princeton: Princeton University Press, 2022, 344 pages, 978-069116738-1

Giulio Zanella*

*Thinking Like an Economist*, a book written by Elizabeth Popp Berman, is an engaging account of the role that economists and government advisors with an economics training played in shaping public policy in the US during the post-war period. The book is very well written and extremely erudite, I enjoyed reading it, and I learned a lot from it. The key point that Popp Berman makes is that there is an "economic style of thinking" (derived from the application of modern microeconomics) that started influencing US policymaking since the 1950s and that quickly became dominant in the 1960s, until the present. An implication of this process is that efficiency replaced moral values as a guide to public policy in a wide range of domains (poverty, education, health, environment, market regulation, etc.), with detrimental consequences for both equity and well-being.

I find Popp Berman's historical account quite accurate and incontrovertible, to the best of my personal knowledge. What Popp Berman really (and rightfully) criticizes is a "shallow" form of economic thinking that unfortunately characterizes many (though not all, of course) policy advisors trained in economics, which in this review I am going to contrast to "deep" economic thinking that characterizes academic economists (again, with some exceptions). However, academic economists are partly responsible for the drift that Popp Berman criticizes in as much as they confine themselves to an intellectual ivory tower and don't think enough about how weaker minds may turn theoretical principles into bad policy recommendations. The bad social and economic policies that Popp Berman describes in the book typically result

*University of Bologna, Department of Economics. giulio.zanella@unibo.it

from leaving responsibility in the hands of advisors who apply shallow economic thinking.

Shallow, or naïve economic thinking derives from a misconception of modern microeconomics, which the book describes as "based on a particular theory … in which … individuals and firms respond rationally to incentives, markets are efficient allocators of resources, and political and practical barriers to creating economically logical policies are of secondary importance" (226). No serious economist adopts (or should adopt!) this paradigm when thinking about public policy issues. That markets are *not* efficient allocators of resources in any real-world context is obvious—market failures are pervasive. That individuals and firms do *not* respond rationally to incentives in many relevant situations is also something that economists have long recognized—an entire field, behavioral public economics, is devoted to understanding the consequences of such departures from rationality (Bernheim and Taubinsky, 2018). There is also widespread evidence that policies based on the flawed idea that individuals lack morality and solely respond to incentives often fail (Bowles, 2016). Finally, that political aspects are fundamental determinants of economic policymaking is the *raison d'être* of a large and long-standing research area in economics that has revolutionized the way economists think about public policy, namely political economics.

Yet, many economists adopt the naïve economic thinking that Popp Berman criticizes and, what is worse, turn it into policy recommendations (in the present like in the past). The problem is not "the economic way of thinking" *per se*, it is rather the "shallow" way some economists think, and the fact that these economists make it at the top of policy circles. This brings me to "deep" economic thinking.

Popp Berman claims that the (shallow) "economic way of thinking" takes efficiency as *the* measure of good policy. Thinking deeper, efficiency essentially means "going as far as possible in the satisfaction of wants within resource and technological constraints" (Reiter, 2018). It's hard to disagree that this is a necessary condition for good policy. For example, suppose that the "want" in question is good health for all citizens, and that given a certain amount of resources and a way of transforming those resources into health services (i.e., a technology), we have a policy A that allows 50% of citizens to receive services that are sufficient for good health (while the remaining 50% does not receive any health care), and a policy B that allows 100% of citizens to receive services that are *necessary* and sufficient for good health. Since the two policies absorb the same resources (i.e., have the same cost), Policy B is

clearly preferable on efficiency grounds. Policy B is probably also the good policy between the two on moral grounds.

This example illustrates that there is nothing in the logic of economics that prevents the adoption of the morally-based policies that Popp Berman advocates and that I also cherish. It all depends on how those "wants" are specified, which is not the job of economics but the outcome of the political process. The job of economics is to take this outcome as given, embed the associated "wants" in a social welfare function that depends on the different policy options, and then tell the policymaker how (i.e., through which policy among the feasible ones given resource and technological constraints) best (i.e., that maximizes that social welfare function) to achieve the goal. This differs from a shallow conception of efficiency as "saving money". In fact, efficiency may well be achieved by apparently wasting money, as for example when healthcare organizations invest in spare capacity in order to be able to cope with unexpected circumstances in which lack of resources or mistakes may have fatal consequences. But the shallow economist does not see that far.

Take again universal healthcare as an example, one that figures prominently in the book (but the same reasoning applies to good education, decent housing, and other socially desirable goals). Once the appropriate social welfare function is adopted, there is no necessary conflict between universalism and efficiency. The social welfare function features the value of good health for each citizen, its cost, and other benefits (like the fact that healthy workers are better workers, that healthy citizens are better citizens who can more easily participate in the democratic process, etc.). If the government decides that good health is a right, then such value is very large, possibly infinite, and it would be efficient to provide free universal healthcare for all no matter the cost (unless this cost becomes itself infinitely large, of course). Denying access to healthcare would cause a large social welfare loss, which economics would label as an inefficiency of the healthcare system.

This is a trivial example, but it suffices to establish that once the appropriate welfare function is adopted, there is no conflict between, on the one hand, economic reasoning and, on the other hand, universalism, equality, and rights. In fact, I claim that there is a strong case in favor of the universal model that is rooted in economics. To me, this is an example of deeper economic thinking. Thus, what Popp Berman truly and rightfully criticizes is ideological thinking by some economists who are doing their math wrong by neglecting important social

costs of preventing universal access to health care. In other words, they are misspecifying the social welfare function, a manifestation of shallow economic thinking. After all, contrary to the US, Europe has public, universal health care despite the economics being the same as in the US. The ideologically-driven miscalculation of some shallow economists who are influential in policy circles is not a failure of economics or a necessary implication of microeconomic theory.

Another recurrent example in the book is environmental policy. Popp Berman finds the fact that "environmental policy turned away from a moral framework that stigmatized polluters and toward the position that pollution was simply an externality to be priced" concerning. Here I see a dilemma with no easy solution. A "moral framework" may be a reliable way of reaching certain goals in a family or in a small community, but hardly so in a complex society. For example, we all find reasonable, appropriate, and acceptable a policy that attains road safety by imposing speed limits and enforcing such limits by means of fines for speeding. A little introspection (for me, at least) reveals that an alternative speed limit enforcement mechanism based on a moral framework that appeals to the importance of one's own and others' lives, social responsibility, etc., would work for some but not for all drivers. Incentives of some kind (e.g., fines for speeding or non-financial, social rewards for observing speed limits) are needed to convince all, including generally moral drivers.

One may object that such incentives are generally advocated on moral grounds (avoiding deaths on the road because life is invaluable) rather than on efficiency grounds (avoiding, at some cost, the larger economic cost of people dying in a car accident), and so they should be based on a moral framework. Indeed, we know that fines may have perverse effects in the absence of morality. A case in point is the renowned "experiment" that introduced fines for parents who picked up their children late at Haifa daycare centers. The fine *increased* the number of late-coming parents because "a fine is a price" (Gneezy and Rustichini, 2000). Incentives may crowd out morality—before the introduction of a fine parents at least strived not to be late out of respect for teachers, a moral motive that was weakened by a price system. However, they may also complement morality (and even help building morality, like all parents who use small "sanctions" to educate their children know). Demonizing and glorifying incentives are equally bad attitudes.

Popp Berman supports the case for banning pollution on moral grounds as opposed to charging polluters (fines or costly permits).

Certainly, we cannot rely on business people's private morality to reduce pollution. Yet public policies based on a public notion of morality are dangerous for other reasons. The social and economic policies adopted in Iran since 1978, in North Korea since 1948, or in Spain and Italy since the 1480s and 1540s by the respective Inquisitions (just to mention a few historical examples) are all driven by moral values that dictate what is good and what is bad. Rejecting an analytical approach to public policy in favor of a "moral approach" means jumping on a slippery slope where even policymakers in advanced democracies can justify pretty much anything: good things (e.g., reducing pollution) like bad things (e.g., depriving women of abortion rights). At least, economic analysis requires governments to justify why they adopt certain policies and not others. Of course, if governments provide such a justification by consulting shallow economists, they will always find an economic rationale for bad policies. But, again, this is not a problem of economics *per se*.

In sum, I think that Popp Berman's book tackles a (real) problem that is rooted more in politics than in economics. Or perhaps is rooted in shallow economic thinking that serves political goals. As Popp Berman correctly points out in her conclusions, "if something is a right, we are obligated to provide it to every person. The question, then, is how best to do that" (225). Deep economic thinking is about the "how best to do that" part, given that the political process has established that "something is a right". Hopefully, Popp Berman's book will be read by more economists and will revive their social responsibility to think deeper (and train students to do the same) about policy-relevant problems.

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