THE PROBLEM OF THE LIBERAL ELITES PART 4 CONCLUSION

Most economists supported NAFTA, and then spent years justifying their support with models and econometric studies they claimed showed that it had little effect. They continued to support trade treaties when China entered the World Trade Organization. They supported the KORUS deal and most supported TPP. Meanwhile, manufacturing job losses increased from the allegedly minor losses of NAFTA to astonishingly high levels.
Link. Link. The linked studies don't count ancillary job losses, including the jobs that never came here because US corporate executives took US generated capital and know-how overseas to build new plants, many with advanced manufacturing capability. The damage done by these trade deals to people and communities is obvious now, especially after Bernie Sanders won the Michigan primary, and an increasing number of economists are talking about it in public.

There is a strong parallel here with the crucial role played by economists in deregulation of the financial sector. This too had widespread support from economists across ideological spectrum.

How did these experts get it so wrong, and wreak such damage on so many people? I think it's because they have so much confidence in their models, and use their authority as experts to push through policies based on those models. And if I'm right, this is a genuine problem for liberal experts.

We can see the confidence in models in Krugman's work. In this blog post, Krugman takes up the question of why economists were so late to the study of inequality. He says he agrees with this Bloomberg View column by Justin Fox (which gives a nice history of the issue), but says that Fox missed a critical part of that failure: inequality is “a hard issue to model”.

> The other [issue one might model] involves the *personal* distribution of income and wealth. Why are investment bankers paid so much? Why did the gap between CEOs and the average worker widen so much after 1980?
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> And here’s the thing: we really don’t know how to model personal income distribution — at best we have some semi-plausible ad hoc stories. Part of why Piketty made such a big splash was that he offered a sketch of a model of wealth inequality that tied it into broader macro numbers — r > g and all that — which gave all of us something systematic to talk about. But he himself concedes that the big rise in inequality so far has come from a surge in the right tail of earnings, which may have had something to do with norms, but in any case isn’t well explained by any model we have right now. Emphasis in original.

Krugman claims to rely on his models. He’s written a number of blog posts explaining his views and defending the process against those who argue that models are worthless if they don’t predict disasters and other bitter criticisms. Here’s an example from earlier this year.

> And that really gets at my point, which is not that existing models are always the right guide for policy, but that policy preferences should be disciplined by models. If you don’t believe the implications of the standard model in any area, OK; but then give me a model, or at least a sketch of a model, to justify your instincts.

Conservatives and their economists insist that the vast increase in incomes at the top and the decrease at the bottom are the result of some special skill or lack of skill, or that the "market pays people what they are worth"; but that is just false, as I explain in detail here and here. Fox says that economists should look outside their specialties and consider the possibility of changing social norms, as some sociologists suggest, or changes in laws and political priorities, as some political scientists suggest. I doubt that social norms have changed. Every survey I've seen says that people don't know the actual figures about wealth and income inequality, and wildly underestimate them.

Krugman says Piketty offers the explanation of "r > g and all that", but what I read in Piketty is his theory that the rich use their economic and political power to get favorable changes in laws, regulations and court rulings, changes that increase wealth and income inequality solely for their benefit, with the losses inflicted on the rest of us. As far as I can tell, raw economic and political power are completely outside the economist field of view, simply because they cannot be modeled. And on top of that, those models don't even consider fraud and corruption, which play a large role in our version of capitalism.

In his 1993 article in Foreign Affairs, Krugman makes the case that the real basis for NAFTA is foreign policy. It was intended to help Mexico transition to a more Westernized economy, which he thought was a good idea. That is a policy judgment, not an economic judgment. But whatever the government and the economists thought, NAFTA was an experiment in the exercise of raw economic power.

The same thing was true about China and the WTO, and TPP and TISA and US/China deals like BITs. The point of these treaties is to change the nature of existing markets and social structures, to create non-governmental forms of control of trade and property, and to protect and enhance the economic power of some US industries at the expense of the lives of millions of workers. Hiding behind weasel words like Free Trade and the professional reputations of most economists, Congress has ceded US sovereignty to a bunch of rogue corporations acting strictly in the interest of profits and shareholder returns, with neoliberals in both parties supporting Fast Track approval of whatever they want.

Krugman counts himself a lukewarm opponent of TPP, as do other liberal economists, for political and not economic reasons. Even though the damage is done, it’s nice to see this change.

That leads me to the conclusion that liberal elites, especially liberal economists, have a real problem: they have been wrong too often on too many important issues. They were wrong about trade. They were wrong about neoliberal economics in general, the Washington Consensus, and, as Queen Elizabeth II pointed out, they couldn’t even see the Great Crash coming.

After the Great Crash, they searched for explanations, but while some focused on the effect of deregulation, there were still plenty of defenders, including many who denied the relevance of the gradual weakening and then elimination of Glass-Steagall, but none of those explanations touched on fraud and corruption. No liberal economists called for prosecutions. Instead they focused the debate on the nature of their models, claiming that they were unfairly blamed for not predicting the Great Crash. Of course, those were the very models they used to advise policy makers that deregulation would be just fine.

Economists have all used the same introductory textbooks for decades now, teaching the simple tropes of capitalism. That sets the baseline for economic theory for the great mass of citizens who have been taught to think the ideas of Econ 101 as laid out the textbooks of Mankiw or

Samuelson and Nordhaus are Gospel. Liberal economists who move away from those ideas are rejected by conservatives.

Now liberals say we trusted you to be right, and you weren't. And not just that, you were wrong in the worst possible way: you concurred with conservative economists. That costs the liberal elites credibility with liberals and even many centrists.

And progressives, the heirs to FDR, by nature more suspicious of wealth and power, say: we trusted you, but you didn't even question the goals and motives of the rich and powerful. Why would we ever trust you? We aren't even sure we're on the same side.

That presents liberal economists with a real problem. Why would anyone listen to them now?

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