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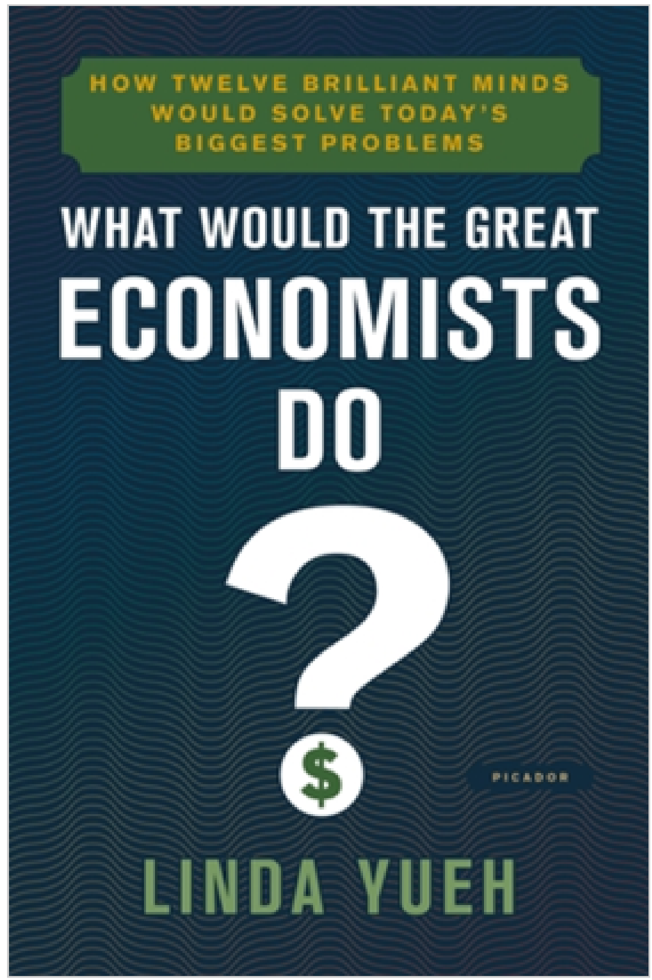
How would the greatest economic minds solve current problems with economic growth?

What Would the Great Economists Do? How Twelve Brilliant Minds Would Solve Today's Biggest Problems. By Linda Yueh. New York: Picador, 2018, 368 pp., $15.66 hardcover.



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In this book, author Linda Yueh begins with the following sentence: "During times of fundamental change, economic expertise is in demand." We are not that far removed from the 2008 financial crisis and the Great Recession. At the height of the recession, the unemployment rate hit 10 percent, the banking system was teetering on the edge of collapse, many lost their homes, and the crisis spread from the United States to the rest of the world. Although we are now in the longest economic expansion in U.S. history, the current recovery differs from past recoveries. The federal funds rate continues to be well below its prerecession level, which leaves less room for the Federal Reserve to lower it in a recession. While the unemployment rate is the lowest in 50 years and business profits are going up, wages are not rising as quickly as theory would predict. This could indicate that profits are not being equitably distributed, which means that inequality is increasing. Technological change is happening fast and global growth is slowing. Yueh suggests that now is the time to assess the state of the world economy, and that one of the best ways to do that is to revisit the ideas and theories of the "Great Economists."

Indeed, there are certain economists whose ideas have shaped the way in which we see the world. We still use their theories and models to understand economic phenomena. In her book, Yueh profiles 12 of these economists and applies their theories and ideas to current challenges to economic growth. Focusing on the United

States and Britain, she conducts a thought experiment in which she imagines the types of policy solutions that these economists might recommend to current policymakers in both countries. Many economists have argued that the ideas and theories of the progenitors of modern economics are convoluted and difficult to sort through. However, Yueh does a great job of making this task easy for the reader.

Yueh starts each chapter by asking a question: What would David Ricardo (comparative advantage) have said about trade deficits? Would he have said that they are as important as some people think they are? What would John Maynard Keynes have thought about the British and European governments promoting austerity (cutting spending to restore investor confidence) after the 2008 crisis? What would he have recommended?

Yueh moves skillfully from the general to the specific in every chapter. For example, the title of chapter 7 is "Joseph Schumpeter: what drives innovation?" After briefly introducing Schumpeter, Yueh rephrases the question, as she does in other chapters, and asks what Schumpeter might think or say about the innovation challenges that face the economy today. Schumpeter was famous for his idea of creative destruction: new technology replaces older technology and boosts growth. Before Yueh interprets Schumpeter's theories in a way aligned with her research questions, she profiles him, as she does with all of the economists discussed in the book. This is where she does her best writing. She delves deep into the backgrounds of the economists, clearly relaying how each of them developed his or her beliefs and ideas. Schumpeter, for example, was heavily influenced both by growing up during the Industrial Revolution and by his professors, who led the Austrian school of economics, which came about as a reaction to the "weaknesses of [the] nineteenth-century Austrian government." Another example is Karl Marx. His beliefs and views on communism were shaped by his youth. He grew up in a place where industrialization was late to arrive. During his youth, birth or religious rights made people nobles, and these nobles took payments from the poor, an exploitative practice that made fairness and equality a big part of Marx's work.

Not only does Yueh profile each economist, but she goes into a great amount of detail in each chapter. In chapter 9, for example, she introduces Joan Robinson and attempts to use that economist's research on imperfect labor markets to help the reader understand why wages have been stagnant for decades in both Britain and the United States. Yueh writes that Robinson would say that, because of imperfect competition in labor markets, employers would have more market power than employees and would pay workers less than what their output is worth. However, before she gives this answer, Yueh details the mechanism behind wage growth, namely, the underlying productivity growth that drives wages upward. She goes into the factors that have weakened the middle-class worker's bargaining power, such as automation and declining unionization, and delves deeper into Robinson's theory of wage determination.

In a similar vein, Yueh asks how Alfred Marshall would view rising inequality today, and what Douglass North would say about future development challenges facing poor countries. She wonders what Robert Solow would have thought about the prospect of slow growth in the future, or how Milton Friedman (he died in 2006) would have judged the Federal Reserve's response to the financial crisis and the Great Recession. Would Irving Fisher say that policymakers have done enough to avoid a debt-deflation crisis like the one we experienced during the 1930s, and what would Friedrich Hayek have said about the 2008 crisis?

The conceptual connections Yueh draws in the book can be a stretch at times, because the economic and social conditions today differ greatly from those which prevailed when these economists lived. Take Adam Smith, for example. Yueh writes about how he might see the efforts of current advanced service economies to refocus their economic activity on manufacturing. She readily admits that Smith's belief in the economic primacy of

manufacturing over services is an idea from more than 200 years ago. It’s doubtful that he would see our present-day services-based economies in the same way as he saw those of the 1770s, although he may retain his opinions about government intervention in the market. Likewise, would Marx have the same feelings about communism after the collapse of the Soviet Union or China’s movement toward a market-based economy (retaining the state in many facets of life)? We need to take the application of past ideas and theories to economic problems with a grain of salt. I believe that the key message of Yueh’s book is that these ideas still matter. The equations and models that contemporary economists use are based on the ideas of economists past.