



Zombie Economics: How Dead Ideas Still Walk Among Us

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In the graveyard of economic ideology, dead ideas still stalk the land.

The recent financial crisis laid bare many of the assumptions behind market liberalism--the theory that market-based solutions are always best, regardless of the problem. For decades, their advocates dominated mainstream economics, and their influence created a system where an unthinking faith in markets led many to view speculative investments as fundamentally safe. The crisis seemed to have killed off these ideas, but they still live on in the minds of many--members of the public, commentators, politicians, economists, and even those charged with cleaning up the mess. In "Zombie Economics," John Quiggin explains how these dead ideas still walk among us--and why we must find a way to kill them once and for all if we are to avoid an even bigger financial crisis in the future.

"Zombie Economics" takes the reader through the origins, consequences, and implosion of a system of ideas whose time has come and gone. These beliefs--that deregulation had conquered the financial cycle, that markets were always the best judge of value, that policies designed to benefit the rich made everyone better off--brought us to the brink of disaster once before, and their persistent hold on many threatens to do so again. Because these ideas will never die unless there is an alternative, "Zombie Economics" also looks ahead at what could replace market liberalism, arguing that a simple return to traditional Keynesian economics and the politics of the welfare state will not be enough--either to kill dead ideas, or prevent future crises.

Zombie Economics: How Dead Ideas Still Walk Among Us Details

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From Reader Review Zombie Economics: How Dead Ideas Still Walk Among Us for online ebook

Stringy says

A great overview of modern economics, how it went wrong and gave us gross inequality and the Global Financial Crisis, and possible avenues for new research. And it's not as pro-Keynesian as some reviewers would have you believe.

Quiggin covers the Great Moderation (unsustainable in the long term), the Efficient Markets hypothesis (wishful thinking), Trickle-Down Economics (self-serving bullshit), and Privatisation (actually a good idea when done pragmatically instead of ideologically). He also covers Dynamic Stochastic Equilibrium, but since a lot of that went over my head I won't give a glib summary!

But he also explains why people came up with these theories due to the economic woes of the 70s. And although those turned out to be incorrect, it wasn't wrong to re-examine the commonly held wisdom and look for alternatives. It's just that its time to do the same with market liberalism as was done to Keynesian economics.

My edition also has a chapter on the Australian history of economic 'rationalism', which I found interesting for filling in the gaps of my understanding of the 80s and 90s political climate. I was a kid then so all I knew was that my parents had no jobs to go to anymore. It's good to understand the bigger picture we were part of.

Quiggin calls for a greater focus on real-world data instead of academic theory, and more emphasis on equality than efficiency, in order to make the economy work for society as a whole instead of a few stockbrokers and corporate raiders. He backs it up with solid reasoning and a fair bit of sarcasm, and I'd recommend this book to anyone trying to understand modern politics.

Chris says

Let me start by providing a bit of a backstory here.

Last Summer in the midst of the **OMGGREECEISDOOMEDWE'REALLGOINGTODIE!111!!!!!!11!!!** hysteria I went and bought books because that's just how I react to everything.

There I was, in one of my favourite bookstores, browsing away when I happened upon the finance section. I don't choose to read economics books for pleasure the way I do other non-fiction books. When it comes to economics, I'll read whatever I need to read in the news in order to understand what's going on. BUT the title of this book just jumped out at me. OMG ZOMBIES. LIKE, ZOMBIES ON THE COVER! So I bought it because... zombies, basically but not only, because if that were true I would have bought Warm Bodies but I ain't touching that thing with a ten-foot pole. Is nothing sacred anymore???

So I started reading it about a month ago (actually it's been exactly one month). I won't lie, the first three chapters did at times go right over my head. I'm familiar with neither the jargon nor the theories and my knowledge of how markets function is mostly limited to those which include the prefix super or mini. I was more interested and more willing to grasp the final three chapters (the reason I bought the book besides the zombies): Trickle-Down Economics, Privatization and Expansionary Austerity. The last two in particular

because if there's one thing we lazy, tax dodging insert preferred stereotype here Greeks are sick to death of hearing about, it's the need for more privatization/austerity. And boy, did these chapters deliver! IT makes perfect sense! It's obvious why these policies are touted and why they don't work.

There's some top notch stuff in the conclusion too. Bloke's awesome. Jesus Christ, I just called the professor a bloke. When I least expect it, the sheila within will do anything to reassert herslf.

p.s. Scroll down for obligatory picture of ZOMBIES

HAHA! GOTCHA!

Mark says

I've read John Quiggin as a blogger for a while, mostly on the group blog site "Crooked Timber." I knew he was working on this book--he published draft passages for feedback--but didn't read the preliminary stuff and wasn't really planning to buy it. Then I see it at the local bookstores, pick it up out of curiosity and found I couldn't resist the combination of a B-movie zombie cover with chapter titles like "Dynamic Stochastic General Equilibrium Theory."

The basic theme is a review of intellectual economic theories that should've died by now, but still fly around among academics, wonks, or politicians. Despite the zombie theme, the writing is not that gimmicky. Explanations are lucid (at least for someone of my "took a couple courses" background) and, while frustration and passion are there, it's not just a long rant.

In general there was a split between things I had heard before, sort-of knew but hadn't thought of analytically, and actual new-to-me stuff. For example, it's pretty much obvious that anyone who profits from the status quo would be inclined to believe in the "Great Moderation," but I never thought through that academics who are finishing off a paper they've been working on for years about the end of the business cycle have an incentive to pretend the '08 recession was mild, and write Wall Street Journal op-eds making that argument. Similarly, privatization is obviously one of those things that works in some situations and not in others, but I was completely unaware of some of the theoretical arguments about financing--and how it's affected by the relatively low returns investors accept on government bonds vs. private equity. Some other things I missed are so obvious in retrospect that I'm too embarrassed to enumerate them.

The book is IMHO so much better than Quiggin's online stuff that it was a nice reminder to me of the benefits of book-length writing, relative to web pages or even NYRB length articles. On the other hand, it was also a reminder of why listening to politicians rationalize policies induced outrage fatigue years ago.

Mr MIT says

John Quiggin is an Australian economist. He made his name in the early 1980s in an esoteric area called decision theory. The Econometrics Society made him a fellow on the basis of this work, a distinguished award. He writes a blog, which has many devoted followers. The book is primarily about macroeconomics, however, which is not his area. Asking Quiggin about macroeconomics is like going to a podiatrist for your headache: it's the wrong end of the body.

The chapter on Dynamic Stochastic General Equilibrium modeling (DSGE modeling) is a good example of Quiggin's lack of expertise about modern macroeconomics. He states that one of the oddities about DSGE modeling is the representative agent paradigm. This is an abstraction where the decision making of one representative consumer/worker is taken as a stand-in for the millions of people living in an actual economy. This abstraction was employed in a famous 1982 article by Kydland and Prescott. Finn I. Kydland and Edward C. Prescott justly won the Nobel prize in 2004. The stand-in consumer was abandoned in 1994 in important work by the late and great economist S. Rao Aiyagari. Every graduate student in macroeconomics

today knows the Aiyagari paradigm. This work is not mentioned in Quiggin. Nor is the celebrated work by Mortensen and Pissarides, done during the late 1980s and early 1990s, on modeling unemployment. Dale T. Mortensen and Christopher A. Pissarides won the 2011 Noble prize for Economics. There has been a flurry of work in macroeconomics embedding the Mortensen and Pissarides framework of unemployment into an Aiyagari/Kydland/Prescott style DSGE model. An early example is the research by David Andolfatto in 1996. Interestingly, Noble Prize winner Paul R. Krugman's latest research with Gauti B. Eggertsson borrows from Aiyagari (they cite it) and is essentially a dynamic general equilibrium model, albeit with a very Keynesian flavor. Quiggin is really out of touch with modern economics.

The trouble with Quiggin's book is that to the non-economist his little bit of knowledge will sound authoritative. Like an undergraduate's essay, many of the bits and pieces are indeed correct. But, also like many undergraduate essays, it shows little understanding about modern macroeconomic, just a superficial dropping of names and theories. Beloved Albert Einstein, a hero for scientists, didn't like quantum mechanics and argued against it. Perhaps it was because of the escalation of the mathematics required to understand the quantum world. Some people say that Einstein wasn't good at math. The mathematics in his papers is easy for a modern economist or physicist to understand--look them up on the web. Time has advanced mathematical training among scientists. Anyway, this was one battle Einstein lost. When Keynesians displaced the classical economists in the 1940s, 1950s and 1960s the latter cried out about the mathematics (calculus and statistics) the former used. Keynesians, such as the Noble prize winners John R. Hicks, Lawrence R. Klein and Paul A. Samuelson, were at the forefront of technique in their day. And now it is the displaced Keynesian crying about the new math (dynamic programming, numerical analysis, stochastic processes) used by the neoclassical economists ushered in by the Kydland and Prescott revolution. Maybe the table will be reversed tomorrow. Who knows: if you could forecast this you could be a Noble Prize winner. This is the process of science: New ideas don't come easily and old ones are hard to displace. Professor Quiggin: You sound like an old man whining about the young Turks.

Justin Campbell says

Zombie Economics: How Dead Ideas Still Walk Among Us: Review

Zombie Economics: How Dead Ideas Still Walk Among Us is a critique of many of the free market ideas that have defined government policy in the last 30 years. The author John Quiggin a professor of economics at the University of Queensland is a well known Keynesian. The fact Professor Quiggin advocates a return to regulation of financial services and a returned to the mixed economy is not surprising. Taking this into account readers should not expect a balanced account of the pros and cons of the neo-liberal policies that replaced Keynesian policy that had existed since the end of the second world war. The book however, provides a thoughtful critique of some of the ideas that have been used to justify many of the policies carried out in the last 30 years.

The zombies Quiggin slay include, the great moderation, the efficient markets hypothesis, dynamic stochastic general equilibrium, trickle-down economics and privatisation. Despite my free market bias I found myself agreeing with his arguments against the folly that was the great moderation and absurdity that is the efficient markets hypothesis when applied to financial markets.

If history has proven anything, claims that the business cycle has been tamed tend to end in tears. Keynesians made similar claims which ended in the stagflation of the 1970s. Likewise, claims by the advocates of deregulation and the efficient markets hypothesis have ended in the great recession. What seems clear is that

at present there exists no economic philosophy capable of taming the business cycle indefinitely.

I first encountered the efficient market hypothesis when studying accounting theory. The argument went, that players in the market have access to perfect information and the financial markets are in the best position to provide valuations of companies. This extended to notion that the marketplace had access to information not publicly available. This was used to justify why accounting standards were unnecessary and that there would be a market for lemons. Clearly, the collapse of Enron in the mid 2000s and the incorrect valuation of financial assets prior to the 2008 recession should have killed this idea once and for all. Unfortunately, this flawed idea of financial markets being highly efficient is still being peddled to resist regulation of the financial system.

Equally, I found myself agreeing with Professor Quiggin on the trickle down effect, this idea has been used to justify massive tax cuts to the rich. Unlike, Quiggin I believe that reducing taxes on income (the benefit of a person's work) is desirable. He makes the point that at present income rate rates once loopholes in tax law are taken into account the tax system is actually regressive. I would argue that it is better to close the loopholes rather than return the top marginal tax rate to 70%-90%. On the broader point of the trickledown effect, many studies into this area have shown that tax cuts do not pay for themselves through increased growth. Many studies have shown that changes to the marginal rate of taxation has a little impact on the willingness of males to work (Who are usually the major income earner in a family). They do partly pay for themselves but ultimately the costs to a government budget exceed any benefits. Equally, there is little evidence that the poor actually benefit from the rich getting tax cuts. This probably suggests that tax cuts are probably better targeted at the bottom reducing the dis-incentive for people switching from welfare to work.

The greatest area of disagreement I had with this book was the chapter on privatisation. The book paints a picture of well run profitable government owned corporations being sold off at bargain basement prices and consumers losing out in the process. Quiggin does provide some interesting arguments against privatisation and makes a good case that government often leaves monopolies in place when privatising making it unlikely that efficiencies promised will be realised.

Overall I would recommend this book for anyone interested in economic policy. Even those of us who are friends of the free market have to accept that financial deregulation has contributed to the 2008 recession. I do worry that this book in the wrong hands will encourage ill-informed people to rally behind the idea of the mixed economy without a serious consideration of its many downsides. A good counter to this book would be Milton Friedman's series and book *Free To Choose* which highlights the many problems of the mixed economy.

Robert S says

Although published in 2010, *Zombie Economics: How Dead Ideas Still Walk Among Us* still provides a good amount of relevant information for readers about popular ideas which still walk this earth in the wake of the Great Recession.

Smellsofbikes says

This book is a lot of fun. It is *not* an introduction to economics. It *is* a political statement, with heavy

economics backing up that statement. If you're looking to learn more about economics this is not likely to help you, but if you're looking to go argue economics-based politics with a bunch of friends, this will fit into your arsenal nicely.

For each of five major topics: trickle-down economics, privatization, moderation economics, efficient markets, and dynamic stochastic general equilibrium, he talks about the background of why the theory became popular in macroeconomics theory, the result of its use, how observation of its effects on the market tend to discredit it, and why it's likely to still be popular despite that. In some, particularly efficient markets, his criticism is withering. In others, like privatization, it's much more nuanced: he discusses when privatization works, when it could work, and when it doesn't seem to work at all.

This is complex stuff, and his treatment isn't soft. Here's a randomly-chosen sentence: "Used with care, representative agent models can simplify macroeconomics analysis, allowing a focus on aggregate features of the economy, where individual differences cancel out." That's not a particularly difficult sentence, compared to some (on that same page, in fact.) It's not trivial reading. But it's interesting reading, and jam packed with information.

Anatoly v01 says

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Brendan says

I thought this book was pretty good, though I think its primary effects on me were to (1) make me think even less of economics (as a discipline) than I already did, and (2) feel a bit hopeless that things will ever get better (despite Quiggin's sensible proposals at the end). Three thoughts:

1. I love decision theory (I'm a philosopher of science who works on Bayesian stuff), but I think the attempts by economists to derive interesting macroeconomic results by doing decision-theory problems on agents who deviate from rationality in small, easily specifiable ways seems pretty misguided. I understand that economists need to do "research", and that figuring out applications for neat-looking decision theory theorems fills this void, but it doesn't seem terribly shocking that this led to a state of affairs where philosophical metaphysics has made more progress than macroeconomic theory over the last 30 years or so. Quiggin does a good job tying this sort of failed research program to a number of bad policy outcomes.
2. I especially liked the chapters on the strong version of the efficient markets hypothesis and on privatization. Quiggin does a good job documenting the (ample) evidence that markets are *not* efficient in this sense, and in arguing that government-owned industries can do better than privately owned ones in at least some sorts of cases. Again, this isn't a surprising result (the empirical evidence is pretty overwhelming); the bigger question is "Why did anyone believe in these sort of nutty things in the first place?" Quiggin does a good job explaining the motivations behind the views, as well as diagnosing their problems.
3. I'm not super-knowledgeable about economics, but nothing discussed in this book seemed super-surprising. What depresses me is that the sorts of zombie ideas that Quiggin discusses are very much alive and well, despite the fact of their massive disconfirmation by the "facts on the ground"--these are precisely the sorts of ideas that get promoted by a ton of "academic" blogs/articles and that are (at least to some extent) still being taught in Econ 101.

Ed says

John Quiggin who seems to be a left wing Keynesian, rounds up the usual suspects to blame for the Crash of '08 and the continuing economic turmoil and finds that policy makers who argue endlessly about how to intervene and then do the wrong thing don't listen to economists.

Which seems to be OK, since most the economists get thing wrong most the time anyway. A text on political economy with the emphasis on political. Quiggin has a lively style and a ready wit.

Peter Moy says

I've had this book on my bookshelf for a while but have finally bitten the bullet and read it and I am glad I did. It provides the best explanation I have come across as to why many of the so call economic 'reforms' here in Australia have been failures and have actually made life worse for the average Australian. Both the Electricity and Gas sectors of the Australian economy are in crisis because of these reforms and the transport sector appears to be heading in the same direction.

The author presents a convincing case that the economic models that have guided government policy for the past thirty years are essentially bogus and have been used to enrich the financial elite. This explains why some 40% of all economic returns (profits) are being channeled into the financial sector. (This is not good for the welfare of society as this misallocation of resources will keep on reducing the productivity of the whole economy the longer it goes on.)

And I believe the academic who dreamt up these bogus model have blood on their hands. The Dynamic General Equilibrium model was used to justify the 'big-bang' transformation of the former eastern blocked from planned economies to free markets in the 1990s. The average age of Russian male dropped to dramatically during this time due to the social dislocation that resulted. A United Nation Development Fund report written in 1999 put the number of 'missing males' in these economies at 9.6 million. That is a lot lives!

The target of the book is the notion that "a liberal market system in which risk is managed through financial markets will outperform one in which governments intervene to stabilize outcomes and mitigate individual risk". The books shows that despite overwhelming evidence from events such as the eastern bloc "big-bang", the Global Financial Crisis, and the extreme growth in the incomes of all but the top percent of the income distribution, this idea still guides most government policy today. Zombies are very hard to kill.

The book is not an easy read but if you make the effort you will be in a much better informed when evaluating the competing economic policies of our politicians.

Crunknor says

(x-posted from <http://ketsugami.livejournal.com/tag/...>)

An interesting book that talks about "dead" (read: disproven by events) economic ideas and how they continue to influence thought and policy. Quiggin goes about his work in a straightforward fashion, and although the death of some of these ideas is more controversial than others, he makes a pretty good case that

all of them need to be consigned to the scrap-heap. There's a certain amount of academic-economics inside-baseball involved here, but not so much that it becomes uninteresting to the casual reader. He does get a touch jargon-y at times, so this isn't good for total novices.

His speculative "what we need to do now" is interesting to read, but sometimes a bit pie-in-the-sky, in that he appeals for wide-ranging changes of major policies. I wish he went a bit deeper into why these ideas refuse to die; some of them are pretty easy to understand (in regards to supply-side economics, the quote is "there will always be a place for any philosophy which appeals to the prejudices of wealthy, powerful men") but some of the more abstract ones, I don't get their staying power. Still, short and well-written, worth a read if you're interested in economic debates.

Tara Brabazon says

This an absolutely superb book. It is not only relevant to understanding what has happened to the international economic system in the last three years, but provides advice and theories to help understand both change and continuity in the history of ideas.

Gavin Leech says

With Irrational Exuberance, Fool's Gold and Black Swan, one of the best Great Recession books, precisely because it isn't narrowly focussed on the Noughties.

The key point is that the pipeline of ideas from academia to policy is *terrible*; it doesn't clear out old disconfirmed ideas, and anyway policy is often based on freshman year lies-to-children.

Quiggin does do a little anti-neoclassical hectoring on top of that, but from what I know (from an undergrad in economics) much of it's fair. I'm not sure about his Efficient Market chapter anymore; there are places where it sure seems to operate, as long as the market is liquid. (Which is of course the rub.)

Kramer Thompson says

Is this book good? Is it bad? I don't know. All I know is that it is a supreme bait. By that I mean, I was lured by the title, cover, and focus of the book into thinking that this would be an accessible practical introduction to economics for someone who has little prior knowledge. Unfortunately it was not this - at least not to me. Some parts of the book I found quite interesting, but most of it just went over my head.

I'm not necessarily blaming the author or the cover designers for this. But it made the reading experience quite difficult. So overall I can't give the book more than a 2, even though I know it could possibly have been a great read for someone better versed in economics than me.
