

Medical analogies in economics

Compiled by Klas Fregert, klas.fregert@nek.lu.se

Economics as a science

It's a primitive science, of course. If you want a parallel, think of medicine at the turn of the century. Medical researchers had, by that time, accumulated a great deal of information about the human body and its workings, and were capable of giving some critically useful advice about how to avoid disease. They could not, however, cure very much. Indeed, the doctor/essayist Lewis Thomas tells us that the most important lesson from medical research up to that time had been to leave diseases alone - to stop the traditional "cures", like bleeding, that actually hurt the patients. Paul Krugman, *Peddling Prosperity*, 1994 p. 9.

Krugman's special structure is so well-chosen that most of its essential insights survive all the extension and generalization. His special assumptions go to the heart of the problem, like a stiletto. By contrast, the followers' work often resembles thoracic surgery, involving much clumsy breaking of ribs; sometimes it proves no more than an autopsy of the issue. Avinash Dixit, 1993, "In honor of Paul Krugman: Winner of the John Bates Clark Medal", *Journal of Economic Perspectives*, Spring 93, Vol. 7.

How do people with such strong ideas react when an economist tells them that some things are quite false, as false as the folk medicine that says that people get ulcers because they worry too much; ... Paul Krugman, 1999, "Introduction", *The Accidental Theorist*, p. 10

Economists

But, chiefly, do not let us overestimate the importance of the economic problem, or sacrifice to its supposed necessities other matters of greater or more permanent significance. It should be a matter for specialists – like dentistry. If economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid. John Maynard Keynes, 1931, "Economic possibilities for our grandchildren", *Essays in Persuasion*.

Policy as therapy

However, suppressing the symptoms is standard practice when the disease is untreatable. Doctors administer powerful pain-killers to patients with untreatable cancers. Barry Eichengreen and Charles Wyplosz, 1998, "The Stability Pact: more than a minor nuisance?", *Economic Policy* 26, p. 76.

40. If all this is true, it would be as silly and immoral to "let nature take her course" as for a physician to neglect a case of pneumonia. It would also be a libel on economic science, which has its therapeutics as truly as medical science. Irving Fisher, 1933, "The Debt-Deflation Theory of Great Depressions", *Econometrica* 1(4).

Destabilising policy when the effect is lagged

The result often is that the remedy is overdone. It is though the family were to go on giving the child successive doses of castor oil every ten minutes until the first dose had done its work. Or - to take a better parallel - it is though different members of the family were to give successive doses to the child, each in ignorance of the doses given by the others. The child will be very ill. Bismuth will then be administered on the same principle. Scientists will announce that children are subject to a diarrhoea-constipation cycle, due, they will add, to the weather, or, failing that, to alternations of optimism and pessimism among the members of the family. If the time taken by the first dose to act is constant, they will discover that the cycle is a true one with a constant period. Perhaps they will suggest that the remedy is to be found in giving the child bismuth when it is constipated and castor oil at the other extreme. But more probably the parents will divide into bismuth and castor oil parties, one of which, impressed by the horrors of diarrhoea, will renounce castor oil, and the other, moved by the depression of constipation, will abjure bismuth. Thus it is not easy to keep to the middle path of continuous health. John Maynard Keynes, 1930, *A Treatise on Money, volume 2, The Applied Theory of Money*, p. 200.

Infectious diseases

Spanish unemployment today stands at close to twice the European average. This raises the obvious question of whether Spain is just suffering from a more acute case of the European disease, or is instead carrying a different virus. In this paper, we argue that the virus is the standard European one, but from a stronger strain. Samuel Bentolila and Olivier Blanchard, 1990, "Spanish unemployment", *Economic Policy* 10, p. 234.

This is not to imply that currency speculators strike randomly. Like an infectious disease, they are likely to pick off the weak and not the strong. But as with any plague, even robust health is no guarantee of survival. Barry Eichengreen, "Taming capital flows", *World Development*.

Debt and deflation

31. The two diseases [over-indebtedness and deflation] act and react on each other. Pathologists are now discovering that a pair of diseases are sometimes worse than either or than the mere sum of both, so to speak. And we all know that a minor disease may lead to a major one. Just as a bad cold leads to pneumonia, so over-indebtedness leads to deflation. Irving Fisher, 1933, "The Debt-Deflation Theory of Great Depressions", *Econometrica* 1(4).

The housing cycle as a bi-polar disease

When it comes to homes, we suffer from a collective bi-polar disease, swinging from manic buying to depressed waiting. We are currently two years into the waiting stage of this disease, and we are experiencing a depressive episode that will soon be the longest and most severe since the Great Depression, with no end in sight. Though this disease is concentrated in the housing sector, it has almost always infected the rest of the economy, and led into national downturns with massive layoffs in manufacturing as well as construction.

Edward E. Leamer, 2008, "A Dose of Urgency for Home Buyers is the Medicine Our Bipolar Economy needs",

www.anderson.ucla.edu/faculty/edward.leamer/oped.html