

So If Incentives Are Overrated...

New Nobelists Duflo and Bannerjee in the *NYT*:

[E]conomists have somehow managed to hide in plain sight an enormously consequential finding from their research: Financial incentives are nowhere near as powerful as they are usually assumed to be.

David's critique is excellent. But supposing Duflo and Bannerjee are right, I have a few questions.

If incentives are overrated...

1. Is it OK to reduce penalties for tax evasion?
2. Is it OK to cut regulatory enforcement?
3. Is it OK to curtail the right to sue?
4. Is it OK to cut pay and benefits for government employees?

My underlying point, as I've said before: The connection between heterodox economics and left-wing policies is fragile at best.

Yes, "incentives matter" helps the case for some right-wing policies. But "incentives matter" also helps the case for some left-wing policies. If you think textbook economics is misleading – as I often do – you should do a *full* rethinking of your policy views. Don't just single out the policies you dislike because they rest on questionable assumptions. Scrupulously investigate the implications for policies you like, too.

What if the heterodox assumptions turn out, on balance, to be politically inconvenient for you?

Perhaps you went heterodox a little too hastily.

Or perhaps reality just isn't politically convenient.