

A confounded economist asks: How did he and his colleagues fail to predict the gravity of the Great Recession?

How, he asks, could he and his fellow economists have failed to anticipate the gravity of the most significant American economic downturn since the Great Depression?

DeLong, who was deputy assistant secretary of the U.S. Treasury for economic policy from 1993 to 1995, is still “astonished” by the scale of the panic that “relatively small” losses in subprime mortgages caused. But he’s even more astonished by the failure of university economics departments to learn from their mistakes. While economists strove to perfect theoretical models of how markets function, they neglected the human, historical, and political forces that shape economies. Consequently, they missed many of the factors that turned the crisis into a disaster, from the theory-

defying failure of banks to protect themselves against excessive risks to consumers’ potential to react to adversity in irrational ways.

A few contemporary economists, including Robert Shiller of Yale and Barry Eichengreen of Berkeley, had relevant insights to offer before the crisis. But it’s striking that many of the most illuminating thinkers—such as Charles Kindleberger, author of *Manias, Panics, and Crashes* (1978), and Walter Bagehot, the editor of *The Economist* in the mid-19th century—are “dead men.”

DeLong argues that economics departments need more people who study subjects such as cognitive biases and microstructure, the nuts and bolts of how particular markets function. “We need fewer equilibrium business-cycle theorists and more old-fashioned Keynesians and monetarists. We need more monetary historians and historians of economic thought and fewer model builders,” he says. If the field of economics fails to change, it risks becoming “a rump discipline that merely teaches the theory of logical choice,” he

adds, while political scientists, business professors, and others take on the job of explaining how the economy actually works.

ECONOMICS, LABOR & BUSINESS

Career, Interrupted

THE SOURCE: “Why the Gender Gap Won’t Go Away. Ever.” by Kay S. Hymowitz, in *City Journal*, Summer 2011.

ALMOST 50 YEARS AFTER THE publication of Betty Friedan’s *The Feminine Mystique*, studies show that women still earn between 75 and 81 cents for every dollar men earn. It’s wrong simply to attribute this discrepancy to the straw man of gender discrimination, argues Kay S. Hymowitz, a fellow at the Manhattan Institute, a New York City think tank. Lots of other factors are at play, such as women’s preference for the kinds of careers that naturally bring in less cash.

Preferences aside, Hymowitz believes that the architecture of studies assessing the wage gap

EXCERPT

A Kind Word for Theory

There is a proper division of labor between those who develop theories and those who meet day to day challenges. It is progress, not regress, that today we have physicists who conceive theories and do experiments and civil engineers who build bridges. This work was done by the same people centuries ago. In the same way, it repre-

sents progress through the division of labor that it is no longer true that academics are the people best informed about the evolution of next quarter’s GDP, as was the case even in the 1960s. While there are exceptions, much of the progress in modern medicine comes from scientific research done by people who do not on a regular basis see patients. Watson and Crick would have been slowed down, not helped, if they had spent time with MDs.

—**LAWRENCE H. SUMMERS**, economist and former director of the National Economic Council, at **Reuters.com** (July 26, 2011)

contains significant flaws. Researchers who compare the full-time earnings of women and men ignore the fact that many women work fewer hours in their full-time positions than men do. Twenty-seven percent of men with full-time jobs worked beyond the average 40-hour work week in 2007, while only 15 percent of women with full-time jobs did.

Moreover, because the available data are limited, researchers can only compare broad career categories. “The Labor Department’s occupational categories can be so large that a woman could drive a truck through them,” Hymowitz says. One oft-cited statistic is that among workers in one category, “physicians and surgeons,” women take home only about 64 percent of the pay men do. But if one considers the fact that men are more likely to go into the medical specialties that require years of additional training—only 16 percent of surgeons are female—then the lag makes a lot more sense. “When you control for such factors as education and hours worked, there’s actually just a five percent pay gap,” Hymowitz reports. If the earnings of men and women who have no children are compared, there’s virtually no difference.

Women with kids are hardly all banging on the doors of the office, begging to be let inside: In a 2007 Pew Research survey, 60 percent of women with children called a part-time job ideal, with the remaining 40 percent divided between those who dreamed of returning to work full-time and

those who wanted to throw in the towel altogether. It’s not just American women who are reluctant to return to the grind. “Even the determined Swedes haven’t been able to get women to stick around the office,” Hymowitz observes. In Iceland, a country revered for its public child care and family-friendly parental leave policies, women also work fewer

hours and earn less than men.

The playing field is far from level, Hymowitz concedes, and gender discrimination hasn’t disappeared. But it’s important to be realistic about how much change is actually possible. “Less time at work, whether in the form of part-time jobs or fewer full-time hours, is what many women want and what those who can afford it tend to choose.”

SOCIETY

Stigma Instead of Safety

THE SOURCE: “Sex Offender Registries: Fear Without Function?” by Amanda Y. Agan, in *Journal of Law and Economics*, Feb. 2011.

CONVENTIONAL WISDOM HAS IT that sex offender registries keep the public safe. With the addresses of people who have been convicted publicly available (and, in most cases, searchable online), police and local residents can monitor offenders and guard against further crimes. Registries have become so accepted that, today, every state maintains a publicly accessible database for at least some category of sex offender. Amanda Y. Agan, a PhD candi-

Sex offender registries are very popular but they have virtually no effect on how many sex crimes are committed.

date in economics at the University of Chicago, argues that many of these efforts are for naught.

Agan analyzed the registries several different ways. First she looked at the incidence of rape and other sex offenses before and after the implementation of registries in all 50 states. She found that registries produced “no real change” in the number of arrests. In a second analysis, Agan studied the arrest records of roughly 9,600 convicted sex offenders following their release from prison in the mid-1990s. About half of the offenders lived in states that required them to register, and half in states that did not. Three years after the offenders’ release from prison, the two groups’ recidivism rates turned out to be virtually the same. In fact, those required to register were convicted of sex crimes at slightly higher rates.

Agan put one of the central premises behind registries—that