

# The Undercover Economist\*

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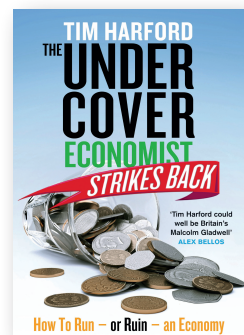
Tim Harford

## The Undercover Economist Strikes Back

(How to Run – or Ruin – an Economy)

London: Little, Brown, 2013

ISBN HB 978-1-4087-0424-0, 320 p.



Written by popular British economist, journalist and television personality Tim Harford, this book provides an overview of the key areas of macroeconomics and economic governance in the form of a dialogue with the aim of spreading professional knowledge. The author guides his layman dialogue partner through 15 chapters, each dedicated to a different topic to give a grasp of macroeconomic processes, providing anecdotes to illustrate the theories and economic governance models, preparing his partner for the challenges he might face at the helm of a (national) economy and the available instruments for addressing them.

The author focuses in particular on the options available to national economies in the face of recession, unemployment, inflation and other anomalies affecting them, and analyses whether economies reacted adequately to the economic crisis that emerged in the wake of the 2007 financial crisis and whether economic theories proved helpful for leaders of national economies.

Besides theories, the book presents many colourful stories about famous economists, making it a pleasure to read (such as New Zealand's Bill Phillips, father of the Phillips curve, who worked in a gold mine, was a crocodile hunter, served as a pilot in the British air force during World War II, received several medals for his acts of valour, and was held captive for three years in a Japanese concentration camp as a prisoner of war, was freed weighing 45 kilograms and dubbed the Indiana Jones of economics on account of his adventurous life).

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\* The views expressed in this article are those of the author(s) and do not necessarily reflect the official view of the Magyar Nemzeti Bank.  
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In his discussion of economic stimulus, Harford explains how the IMF's excessively low, and as it later transpired, flawed estimates of the multiplier effect of fiscal stimulus and the 90 per cent government debt-to-GDP reference value touted by Harvard professors — based on a botched calculation and also debunked later down the line — side-tracked nations struggling to manage the situation during the crisis that started in 2007 (as many of these countries based their decisions on them on account of their influence), prompting nations to adopt austerity measures when economic stimulus would have been called for instead, even at the cost of a temporary rise in public debt.

Unemployment and the fight against it are a recurrent theme throughout the book. Employment occupies a special role during times of economic downturn, as higher unemployment during recessions is the source of some of the greatest, and also the hardest to correct, social damage, and therefore economic policymakers must make employment a priority.

In the context of the fight against inflation, the book presents central bank independence and the emergence of inflation targets, focusing in particular on self-restriction and the functioning of commitment theories, alongside central bank credibility.

In the field of economic governance, the author explains that while statistical indicators (such as GDP) are useful when forming policy decisions, an astute (economic) policymaker is aware of their incapacity to reflect the complexity of social reality and so they rather focus on identifying social issues and on addressing practical problems (for instance to fight unemployment or the standard of public services), rather than adapting to indicators.

The book says many of the current mainstream macroeconomic approaches call for a review and should incorporate new fields (such as behavioural economics or the complexity theory), and an overly theoretical approach should be replaced by greater focus on addressing real, experienced problems. Harford is convinced that the resolution of current socio-economic issues calls for a renewal of economics (and specifically, macroeconomics).