
BOOK REVIEW



Mark Kritzman, Senior Editor

The Undercover Economist Strikes Back—How To Run or Ruin an Economy

*By Tim Harford,
Riverhead Books, 2014,
Hardcover
(Reviewed by
Javier Estrada, IESE Business
School, Barcelona, Spain)*

Twice before I have reviewed Tim Harford's books for this journal, first *The Undercover Economist* in 2006 and later *The Logic of Life* in 2009, both of which I found terrific and recommended highly. Almost the same is the case with *The Undercover Economist Strikes Back*, which I discuss in this review, but with some minor reservations to which I will get in a minute.

First things first. Harford's two previous books are on microeconomics but his latest book is on macroeconomics. This means that his first two

books focus on the behavior of individuals and the rationality underlying their decisions. His latest book, on the other hand, focuses on broad issues such as employment, unemployment, interest rates, inflation, inequality, and the like. Therefore, the focus of Harford's first two books, and that of his latest book, are very different, and so is the treatment of the issues discussed.

The Undercover Economist and *The Logic of Life* follow the path first opened by Steve Landsburg's *The Armchair Economist* and widened by Steven Levitt and Stephen Dubner's *Freakonomics*. All these are books that deal with curious and amusing examples of human behavior. They find rationality where it is hard to imagine it may exist; they highlight what a simplistic explanation would lead us to expect, and then uncover evidence that shows

the opposite result, which happens to be consistent with rational behavior. These four and other similar books are terrific, fun to read, and illuminating. And, just as importantly, they are largely independent from personal views or political positions.

That is far from the case in macroeconomics. Traditionally, macroeconomists are in either one of two camps that go by several names, and that I will refer to here as Classical economists and Keynesian economists. To simplify (perhaps to *over* simplify), the former believe in the proper functioning of markets and advocate to minimize government intrusion in them; the latter, in turn, believe that markets have imperfections and advocate government intervention to address them. The solutions an economist sees for just about every macro problem

may differ widely depending on which camp he is on.

Why do I bring this up? Simply because it is nearly impossible to write a book on macroeconomic issues without falling, however slightly, in one camp or the other. Harford does try hard to take the middle road on most issues but on the balance, I think, he leans somewhat toward the Keynesian view of the world. Nothing inherently wrong with that, but once you take a side in macroeconomics, most of what you see is tinted by the color of the glasses worn in your camp.

So what does the book discuss? Most of the macro problems that people are concerned about and that figure so prominently in the press, which makes the book very useful, particularly for those that have little background on economics in general and macroeconomics in

particular. The book tackles a wide variety of topics including recessions and tools to get out of them; monetary and fiscal policy; money and inflation; employment and unemployment; poverty and inequality; and even the relatively new research on happiness.

Interestingly, the book is written in the form of dialogues between an economist (Harford, I guess) and a person with little background on economics who is charged with the task of understanding and running an economy. The dialogues make the book an easy read, and having someone asking the right questions at the right time is a good device to keep the story going at a good pace.

That said, this book is not as amusing as the previous two books by Harford, but that is not his fault; it comes with the territory he decides to explore this

time around. Macroeconomists will probably not learn from this book a whole lot they do not already know, but most other people will find in it answers to many questions they may have had about the economy and 'the crisis' that slowly but safely we seem to be leaving behind.

In short, this book is a good read for people interested in macro issues. Harford knows how to tell a story and how to explain difficult issues in a simple way. You may be a tiny bit disappointed if you compare this book with his previous two, but that is a mistake you should avoid; the topics discussed are simply different and the bottom line is that Harford does a good job at discussing both. If you are curious about macro issues and know little about them, I highly recommend that you read Harford's new book.