Report on "A Theory of Economic Policy Lock-in and Lock-out via Hysterisis: Rethinking Economists' Approach to Economic Policy"

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The paper discusses economic feedback effects of policy decisions on future policy options. Since policy decisions may change the structure of the economy (concerning distribution of income, wealth etc., and hereby political influence) this may later on change the policy outcomes vice versa. Due to this *inter*dependence of politics and economy, a change in the present policy can end up in a persistent new equilibrium of changed economic structure and a changed/reduced policy possibility set. The author uses the term "hysteresis" to express this permanent change in the economy-policy equilibrium. Furthermore, he points out that these mechanisms can be intentionally used by political actors for establishing permanent political lock-in effects.

The paper has the following structure: The first section gives an introduction to the logic of policy lock-in. The second chapter tries to describe the lock-in effects as a type of hysteresis. Ch. 3 gives a more detailed view on the mechanisms behind the policy lock-in, while some examples for the phenomenon are presented in section 4. The example of lock-in effects due to globalization are addressed in section 5. Section 6 concludes.

The paper actually continues the idea of Acemoglu/Robinson (2013) [" Economics versus Politics: Pitfalls of Policy Advice, Journal of Economic Perspectives 27 (2), 173 – 192], where the interrelation of policy→economy→policy is discussed aiming at unintended feedback/side effects of partial economic policies on the overall democratic/political situation of countries.

The discussion within in the paper is somehow of a "fundamental" perspective, and thus no specific model is applied, but a more general discussion is presented. In principle, this type of approach seems adequate for this kind of problem at an early stage of discussion. However, concerning the realization of the analysis some comments and critics may be appropriate.

(1) The discussion is very anecdotal, based on presenting a lot of illustrative examples in order to give evidence of the empirical importance of the deplored feedback/lock-in effects. However, the economic and political mechanisms behind these path-dependent multiple equilibria are not explicitly clarified in most cases in a definite and sufficient way. These mechanisms may e.g. be based on network effects or sunk costs on the economy side and public/social choice aspects in the sphere of politics. Moreover, the examples are discussed in a quite "ideological" perspective, where especially neoliberal policies and economic globalization are accused for producing negative lock-in effects. This critical perspective especially concerning "neoliberal" or "mainstream" economics is partly explainable by the fact that these schools of economic thought (with their "hegemony of ideas", as the author criticizes) typically are neglecting just the path-dependent and interdependent policy-economics relations (e.g. by assuming perfect markets, rational actors, or by assuming policy decisions as exogenous). However, as economic liberalisation could end up in an unintended negative result (as it is explicitly discussed in the paper for some examples), the same could also be true for the opposite strategy of a de-liberalisation/socialization strategy – where an excessive bureaucracy and/or public enterprises due to soft budget constraints, and politically backed by the public system's stakeholders, is ultimately ending in an economically inefficient and politically restrained situation (as e.g. currently in the case of Greece). In my opinion, the argument of path-dependent lock-in and feedback effects to policy is a valid point, but the discussion should be more "neutral" or balanced in an ideological dimension.

To sum up, not only illustrative examples of potential lock-in situations should be presented, but a deeper analysis of the mechanisms and reasons behind these phenomenons should be supplied (while the emphasis on "ideological" aspects and on globalization topics should be reduced).

(2) The usage of the concept of hysteresis (i.e. the dependence of the state of a system on its history), which stems from physics, is worthy of a deeper discussion. In economic relations hysteresis is a consequence of some kind of sunk adjustment costs (e.g. hiring and firing costs as the reason behind labor market hysteresis). However, hysteresis is typically not an irrevocable lock-in (e.g. firing can be reversed by hiring – but this is hindered by spending hiring costs as a

switching barrier). Thus, in the case of a permanent lock-in (as illustrated in Figure 1b of the paper), this is not genuine hysteresis but rather a "ratchet effect". Moreover, passing thresholds/switches in order to produce remanent effects is a phenomenon on the micro level, and is often not necessary on a macro(economic) level [compare hysteresis for a single iron crystal, which looks like the loop in Figure 1a, with the continuous hysteresis loop for a complete peace of iron – which typically corresponds to aggregate economic relations]. From a natural science perspective, looking at path-dependent multiple equilibria related to the interdependency of politics and economy, actually is an example of an "irreversible process" (similar to thermodynamics), where "transformation energy" is dissipated, resulting in an irreversibly changed structure of the complex system. From an economics perspective several links to the literature could be discussed, if there is an overlapping in the argumentation. E.g. politics and economy interaction is discussed by the political business cycle (W.P. Nordhaus) and the interaction of economics and policy resulting in multiple equilibria is the basis of 2nd generation currency crisis models (M. Obstfeld). Path-dependence and "history matters" arguments may go back to the historical school of economics and are implemented in evolutionary economics or complexity economics. The relations and differences to these other branches of science should be addressed, especially at this early/"fundamental" stage of discussion.

A minor comment: the term hysteresis is sometimes spelled "hyster**i**sis" (which is possible in principle). Nevertheless, this type of spelling is often incorrectly used for citing references (where usually the standard spelling "hyster**e**sis" is used).

Summarizing, the paper comprises an interesting perspective on the interrelation of politics and economy which is until now underrepresented in economics. Thus, there is a significant contribution of the paper. On the contrary, the analysis should be improved in some aspects, especially concerning the exposition of economic mechanisms of lock-in/hysteresis, a reduction of some kind of "ideological" emphasis/bias, and the embedding of the argumentation in the existing (economics) literature.