

**REFEREE’S REPORT ON “A THEORY OF ECONOMIC POLICY LOCK-IN AND
LOCK-OUT VIA HYSTERESIS: RETHINKING
ECONOMISTS’ APPROACH TO ECONOMIC POLICY”**

This paper proposes to explore the consequences of lock-in and hysteresis for economic policy. The paper argues quite convincingly that policy decisions can have permanent effects on the structure and performance of the economy and that this feature should be taken into account in the framing of economic policies.

The argument made by the paper is quite clear. The novelty – namely, the articulation with economic policies – is interesting. As a matter of fact, the author is right to underline that economic policy does not take into consideration the possibility of hysteresis and lock-in while those are key issues. And the paper provides some leads as how to do so.

However, I don’t think the paper can be published under its present form. I thereby recommend that the author is invited to revise and resubmit it, after taking into consideration the remarks below.

Key issues

My main issue with this paper is that the key concepts (namely, hysteresis, lock-in and lock-out) are not clearly defined. And even too often confused in many parts of the paper. This can be irritating for a specialist on these topics. Indeed, even if hysteresis and lock-in are related (amongst others because they are both kinds of path-dependency), they should not be confused and should be defined and distinguished much more explicitly. In the same vein, the author should really distinguish between *strong* (or macro) hysteresis and *weak* (or micro) hysteresis. My advice would be to carefully read the paper by Cross (1993). When taking a closer look, the author should realize that figure 1.a on page 4 corresponds to *weak* hysteresis – and it would be much more promising to have strong hysteresis on figure 1.b. than what he calls “permanent lock-in hysteresis”. Or at least, he needs to explain and justify why he conflates weak hysteresis and lock-in here.

I do think that exploring the possibility of *strong* or *genuine* hysteresis would be clearly beneficial to the paper – and strengthen its analyses and policy conclusions significantly. Amongst others, once this distinction between strong and weak hysteresis is made, I am not sure that the distinction between “direct” and “indirect” hysteresis (made on p. 13) is either interesting or relevant.

The list of proposed sources of hysteresis provided in the paper is rich and rather novel. However, the author does not go deep enough into the analysis and does not say how these various sources should be modelled. This improvement would also enrich the paper significantly.

Moreover, a very annoying thing in the paper is that the author sometimes misspells hysteresis and writes “hysterⁱsis”. This last spelling is false and should be corrected, everywhere.

Last but not least, the various graphs do require much more explanations. This is particularly the case for figures 3 p.17 and ... 3 p.19 (which should be renumbered as figure 4). What is the quadrangle on the left-hand side? How is its size and position determined? Why is the curve on the right non-linear and why does it have that shape and not another? On the left axis, how is the “policy target possibility” defined and what exactly does it include? On the right axis, how is globalization defined and measured? The same question applies to the policy space on the vertical axis. Last, how is G defined and what does it correspond to in the real world – even intuitively?

Minor issues

P.6, graph 2: where are the “vested interests” in the economic interests of the various groups of societies in this graph?

P.6, last paragraph: the “feedback loop” here requires much more developments. How does this loop work, and why? What are the underlying economic mechanisms?

P. 8, last paragraph: “the production possibility frontier” and the way it shifts need more explanations.

P. 9, first paragraph: the author says that “Rodrick’s (2014) framing of ideas is technological and benevolent, and it contrasts with current framing in which ideas provide the political justification and rationalization for policies.” Fine. But how does this fit in figure 2?

P. 13: it is stated that “financialisation ... should be understood as a hysteretic process that locks-in transformational change”. This is stimulating but also very frustrating – what mechanisms does the author have in mind?

P. 14: the author states that “tax cuts are popular”. He should say for whom!

P. 15, we can read that “today’s globalization was designed with little attention to labour and social issues.” Isn’t it the reverse? One of the aims of the current wave of globalization is to

diminish labour and social protection! At the least, there is a causality issue that needs further discussion here.

P. 16, “*laissez-faire*” should be put in italics.

P. 17, line 2, shouldn't it read “policies” rather than “politics”? Moreover, a few words of explanation about Rodrick's argument would be welcome - for readers who are not familiar with it.

P. 18: what the author explicitly refers to here has been called by some economists working on these issues “*new constitutionalism*”. I think a reference to this would be relevant.

REFERENCE

Cross, R. (1993). On the Foundations of Hysteresis in Economic Systems, *Economics and Philosophy* 9 (1): 53 – 74.