



THE THEORY OF ECONOMIC POLICY: FROM A THEORY OF CONTROL TO A THEORY OF CONFLICT (RESOLUTIONS)

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ABSTRACT

The theory of economic policy has its roots in the contributions of Tinbergen and Theil, who solved the problem of a policymaker aiming to achieve certain values for his policy targets, or to minimize a loss function defined on those targets, by using the available policy instruments. After Lucas raised the issue that the private sector could react to the policymaker's decisions the theory developed by Tinbergen and Theil lost its appeal and most policy problems have been discussed in terms of policy games, thus introducing the possibility of conflicts among different players. The new theory of economic policies revisits the Tinbergen and Theil approach, by applying some concepts and tools introduced by them in order to develop a theory of conflicts, able to assert conditions under which policy neutrality, game equilibrium existence, and policy uniqueness or multiplicity appear.

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