The Unheard Nerds

How Economists Can Talk So Policymakers Will Listen

Karen Dynan

Advice and Dissent: Why America Suffers When Economics and Politics Collide BY ALAN BLINDER. Basic Books, 2018, 368 pp.

An uncomfortable truth for American economists is that they have limited influence on economic policy. Take trade, for example. Anyone who has studied introductory economics knows that free trade benefits countries in the long run, by allowing them to specialize in producing the goods and services in which they have a comparative advantage. Economists are in near-universal agreement about this point, although most also agree that it is important to help workers who lose their jobs in the short run because of trade.

Yet free trade has never been very popular in Washington. The administration of U.S. President Donald Trump has imposed costly tariffs on imports from Canada, China, Mexico, and the EU, but such restrictions are not a mere idiosyncrasy of Trump. President Ronald Reagan introduced quotas on Japanese auto imports in 1981, and the North American Free Trade Agreement faced opposition from both Democrats and Republicans when it was introduced to Congress in 1993. And many previous administrations have imposed trade restrictions on steel in order to support U.S. producers: Richard Nixon imposed import quotas, Jimmy Carter set price floors for foreign steel, and both George W. Bush and Barack Obama enacted steel tariffs during their presidencies.

Trade is hardly the only area in which economic policy goes against expert consensus. The Republicans' 2017 tax reform left largely intact the mortgage interest deduction, which allows homeowners to deduct the interest on loans used to buy or build a home, even though the vast majority of economists believe that it leads to overinvestment in housing and excessive mortgage debt relative to the social optimum. And in recent decades, U.S. states have greatly expanded occupational licensing—regulations setting minimum qualifications for entering a field—for florists, hair stylists, interior designers, and other professions for which the consumer protection benefits of licensing are doubtful. Most economists agree that this sort of occupational licensing hurts workers by restricting entry into a profession and hurts consumers by keeping prices high.

Why don't economists have more influence? This is the question posed by Alan Blinder in his new book, *Advice and Dissent*. And Blinder, a prominent macroeconomist who formerly served on President Bill Clinton's Council of Economic Advisers and as vice chair of the Federal Reserve Board, is well equipped to answer it. Based on decades of experience

KAREN DYNAN is Professor of the Practice of Economics at Harvard University. From 2014 to 2017, she served as Assistant Secretary for Economic Policy and Chief Economist at the U.S. Department of the Treasury.

in both economics and policymaking, Blinder argues that political incentives often force elected officials to ignore the best advice of economists, to the clear detriment of all. Although Blinder recognizes that there are no simple solutions, he provides clear and compelling, albeit modest, suggestions for how to design economic policy that takes account of political reality.

GET SMART

Blinder, riffing on a famous quote often misattributed to the Scottish writer Andrew Lang, argues that politicians typically use economists "the same way that a drunk uses lamp-posts—for support rather than illumination." Economic policy is too often shaped by officials and their advisers in accordance with political goals, with economists used after the fact to justify policies that have been chosen by others. There are enough economists that a politician can always find one to support almost any policy, even one that most economists reject. The result is policies that make political sense but leave the country as a whole worse off.

The root of the problem, according to Blinder, is that politicians are dealing with a fundamentally different set of incentives and constraints than economists are. The framers of the U.S. Constitution designed a system in which it is difficult to make sweeping policy changes, meaning that politicians generally need broad popular support to do anything. Voters, in turn, have a limited understanding of many issues, especially those related to economic policy. And members of the media often privilege raising their own profile—or the market share of their employer—over fair and balanced reporting, limiting experts' ability to better inform the electorate. Together, these factors produce a strong incentive for politicians to champion simple ideas that sell well over the more complex, less emotionally charged solutions preferred by economists.

The situation is made worse by political short-termism and the influence of interest groups. Politicians who face reelection every few years tend to adopt policies that will deliver gains in the near future, even if the costs will eventually outweigh the benefits. Conversely, economists favor bearing short-term costs in order to realize long-term gains. For example, Blinder notes that although "many economists favor a consumption tax over an income tax," arguing that the former is more efficient, "the transitional problems that would arise" from enacting a consumption tax—such as the potentially steep penalty on retirees, who paid income taxes while working only to face higher consumption costs in retirement—are "enough to make a strong politician weep." Likewise, a politician's survival may require policies that disproportionately benefit small, well-organized groups yet impose significant costs on the rest of the population.

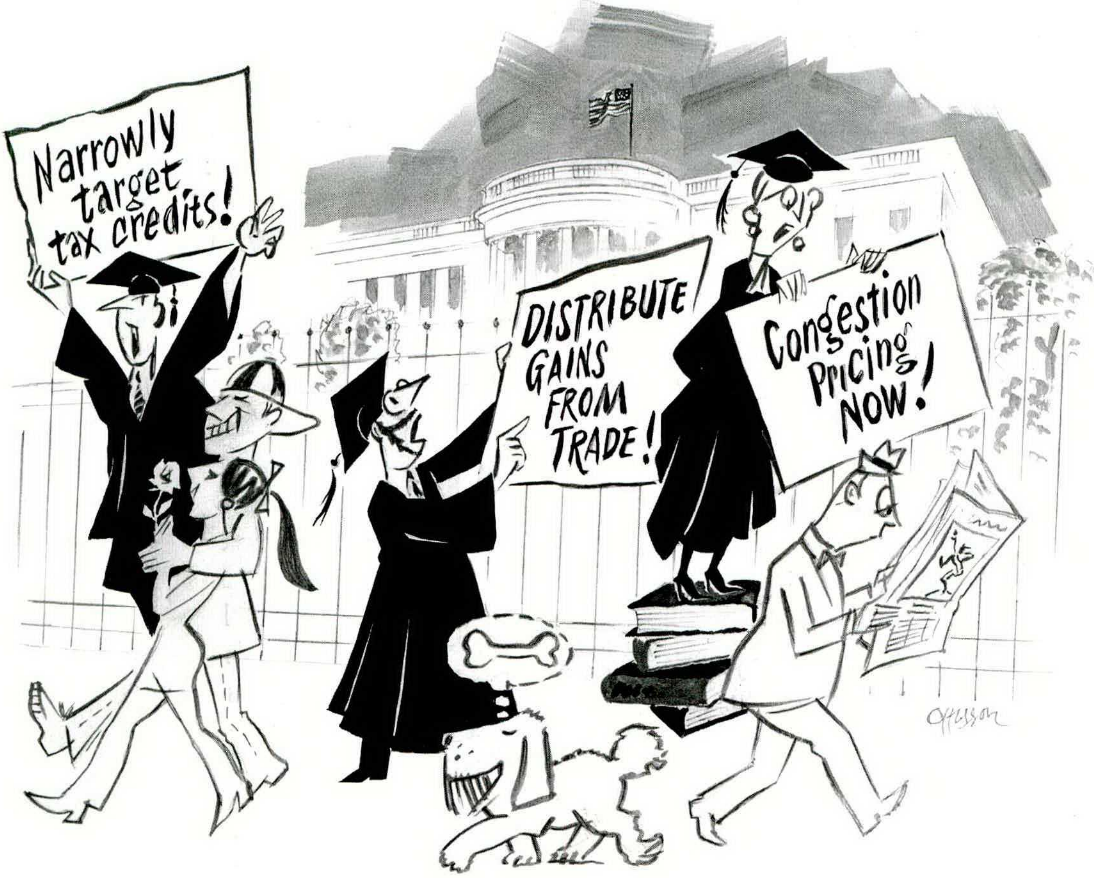
Advice and Dissent also explores how voters' misconceptions and politicians' devotion to special interests conspire to keep policymakers in Washington from applying economists' knowledge in a number of hotly debated areas, such as inequality, international trade, and tax reform. On the topic of inequality, for instance, Blinder argues that if more people understood that "it is harder to raise taxes on mobile factors of production than immobile factors," they would be more willing to "assign the job of redistribution to the federal government," since "people are far less likely to change countries than to change cities."

Yet even considering the conflicting incentives and uninspiring record, Blinder believes that there is room for improvement. He points out that contrary to the popular impression, economists agree on a great many things: that people and companies are heavily influenced by incentives, that there is a tradeoff between the size of a country's economy and how equally its wealth is distributed, and that simple policy fixes, such as congestion charges for car use, could help solve common problems that inconvenience everyone, such as gridlock. Against the populist, antiestablishment sentiment driving much of U.S. politics today, Blinder advocates giving technocrats a greater role in government, especially in areas that are more or less value neutral. "An issue is a good candidate for technocratic decision making," he writes, "if it is technically complex, if it requires a long time horizon, and if it involves the apportionment of pain. It is a bad candidate if value judgments are central to the decision." For instance, Blinder proposes the creation of a federal infrastructure bank and a nonpolitical federal tax board to redesign the details of the tax system, both of which would represent a significant change from current arrangements.

BIG LITTLE LIES

Blinder deserves ample credit for taking the interaction between economics and politics seriously at a time when the challenge of making good economic policy has become even more acute. Politicians and the public now show less deference to expertise than in the past, a view encapsulated in the 2016 remark by Michael Gove, then the British justice secretary and a pro-Brexit campaigner, that people "have had enough of experts." This likely has multiple causes, including the rise of the Internet, a collapse of confidence in the press, and understandable frustration over the role played by experts in the 2003 U.S. invasion of Iraq, the 2007–8 financial crisis, and trade policies that have led to unemployment in certain sectors of the economy. But although these examples show that experts can clearly be wrong, expert economic opinion is generally more right than political guesswork. For example, despite economists' failure to predict the financial crisis, the Federal Reserve's response to it—providing additional liquidity to backstop the financial system—generated a much better outcome than would have been achieved by following the advice of politicians who wanted to let the banks fail. As trust in experts has declined, however, it has become easier for politicians to offer far-fetched solutions regardless of their economic merit.

To make matters worse, the major U.S. political parties have been severely weakened in their ability to select their preferred candidates or target their financial resources. This has only exacerbated short-termism. Party leaders generally have longer time horizons than individual politicians because they are responsible for ongoing relationships with the other party and with voters. Concern for maintaining these relationships and protecting their party's reputation gives party leaders an incentive to restrain their members from pursuing misguided policies that deliver enticing short-term gains. And traditionally, party leaders have gotten what they wanted.



In the 2016 U.S. presidential election, however, Trump and Senator Bernie Sanders of Vermont ran insurgent campaigns directly challenging their respective party establishments, with Trump winning the Republican nomination and Sanders only narrowly losing the Democratic one. Insurgent candidates are, as a rule, less worried about longer-term reputational consequences than are those beholden to a party hierarchy and are thus more willing to make wildly unrealistic proposals. Trump, for example, promised to simultaneously cut taxes, reduce deficits, maintain Social Security and Medicare benefits, and provide good health insurance to everyone.

Dishonest communication with the public is especially problematic because politicians shape the views of their constituents. According to data from the Pew Research Center, Republicans' views on trade have been converging with those of Trump: in 2009, 57 percent of Republican or Republican-leaning voters polled thought that trade agreements had been a good thing for the United States; by 2018, only 43 percent thought so, with most of the drop occurring in the lead-up to the 2016 election. (Similar shifts, among both Democrats and Republicans, can be seen on other issues strongly associated with the president, including immigration and U.S. relations with Russia.) When politicians deliberately mislead voters, it makes it even more difficult for experts to advocate effective but potentially unpopular policies.

MARGINAL EVOLUTION

Blinder acknowledges that there is much more that economists could do to build bridges with politicians and voters. He urges his colleagues to speak in ways that nonexperts can understand and to recognize that "fairness is far more meaningful and important to most people than the economist's cherished notion of efficiency."

There are other ways that economists who want to influence policy could increase their own relevance. First, they need to take political constraints more seriously. Economists often see their job as designing policies that get the economics right and delivering them to Washington, at which point it becomes someone else's job to turn those ideas into law. One problem with this attitude is that nearly all policy proposals require reworking before they can be put into action—and some need a great deal of reworking. Economists should keep this in mind and be more willing to develop what they call "second-best" solutions, or policies that move in a desirable direction while getting the economics as right as possible given political and other constraints. For example, most economists agree that the most efficient way to cut taxes in order to stimulate a weak economy is to narrowly target the cuts at those who are most likely to spend the extra money. But it will usually be more politically feasible to enact a broad-based payroll tax cut. This is a case in which it would be better to accept the less efficient policy if the alternative is having no fiscal stimulus at all.

More broadly, economists should view political constraints as potentially useful sources of information about people's preferences. Although resistance to what economists regard as an ideal policy may sometimes reflect the entrenched influence of a powerful few, at other times it may represent a constructive form of popular feedback. For example, the second-best policy may be much easier to explain than the first-best, and there is real value in having policies that people can understand. In other cases, such as the opposition to the Trans-Pacific Partnership (a trade deal that Trump scrapped shortly after entering office), political resistance may reflect in part the fact that voters place greater value on equity than efficiency. Economists need not become legislative experts, but everyone would benefit if they showed more interest in working with politicians to find workable compromises.

Economists could also increase their influence by developing more realistic models that account for institutional considerations, such as the complex linkages among different parts of the financial system, and for behavior that does not fit the simplifying assumptions of traditional economics, which hold that fully informed individuals will rationally pursue their preferences without any cognitive biases or limitations. Making these changes will make economic research messier and less conclusive, but politicians and voters probably won't support proposals based on analyses that only vaguely resemble the real world anyway.

The financial crisis was a wake-up call in this regard. Despite clear warning signs, economists were slow to recognize the inflation of a housing bubble in the years leading up to the crash because most were taught that markets were too efficient to overprice an asset for a long period of time. Economists also missed the ways in which risky mortgage-backed securities linked the housing market to the broader financial system, causing them to vastly underestimate the impact of a wave of foreclosures.

Since the financial crisis, economists have made considerable strides in their understanding of financial institutions and how they are connected to the real economy. They are paying more attention to institutional considerations in other policy areas, as well. In student loan policy, for instance, economists are beginning to recognize the risks to students and taxpayers posed by for-profit colleges, many of which encourage students to borrow from the federal government to fund educations that are unlikely to result in high enough incomes to repay the debt. And in labor-market policy, there is a new focus on the challenge of developing institutions that can finance and administer benefits in the gig economy comparable to the arrangements, such as employer-provided health insurance, that have grown up over time with traditional employers.

Similarly, a thriving behavioral economics literature has emerged over the past two decades that incorporates more realistic assumptions about behavior than those embedded in traditional economic models. Consider retirement savings. Economists used to assume that individuals decided how much to save by projecting their income and consumption needs into the future and then saving in order to maintain a preferred standard of living over their lifetime. Yet behavioral economics has shown that people are generally not so sophisticated: they make decisions using simple rules of thumb and often have self-control problems, consuming in the present even when they know they shouldn't. This insight has led to policies designed to address these limitations, such as workplace retirement saving plans, in which people commit to saving a certain amount out of every paycheck. These are effective at encouraging saving, especially if employers "nudge" their workers into such plans by signing them up automatically and making them request to opt out. Although economists are still only beginning to understand the degree to which individual economic decisions can be explained by cognitive limitations and biases, rather than rational calculations based on preferences, advances in behavioral economics will pave the way for improved policy.

Finally, economists must develop more and better evidence about which policies work. Such evidence can be hard to come by, because opportunities to conduct experiments and collect data on outcomes, especially across longer time periods, are necessarily limited. But today, both the accumulation of evidence from previous policies and improvements in methodology are allowing economists to more rigorously evaluate what works and why. One particularly important line of research has examined the long-term effects of government programs aimed at providing better education, health care, housing, and nutrition to children in low-income families. The economists Hilary Hoynes, Diane Whitmore Schanzenbach, and Douglas Almond, for instance, have shown that access to food stamps in childhood leads to significantly better adult outcomes in health and, for women, economic self-sufficiency. Politicians are likely to find policy proposals backed by hard evidence much more appealing than those that simply sound good on paper.

Such research may hold the potential to help move policy beyond the left-right divide. In 2016, Paul Ryan, the Republican Speaker of the House, and Patty Murray, a Democratic senator from Washington State, sponsored legislation creating the bipartisan Commission on Evidence-Based Policymaking. The commission, which includes many economists in its ranks, issued a report last fall with recommendations for how the federal government can improve its gathering and use of data to shape policy, including increasing the coordination of evidence-gathering efforts within the government and developing a uniform process for outside researchers to gain secure access to confidential government data.

There is no silver bullet for making economic policy better in the face of political constraints. Economists and elected officials will continue to face different incentives, and in many cases, political necessity will triumph over economic sense. There is certainly some scope for increasing the influence of economists and other experts, through changes both in the policymaking process and in the way that economists do their work. But these changes need to go hand in hand with a commitment by elected leaders to communicate honestly and show respect for evidence. Political leaders need to recognize that they will ultimately get more support from voters by addressing their problems, which they can do effectively only with help from experts. Voters, for their part, need to hold their leaders responsible for outcomes. Otherwise, honesty, for a politician, will continue be a fool's game.