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The Political Limits of Economics†

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War is too serious a matter to entrust to military men.
— Georges Clemenceau

In the spirit of Clemenceau, Huntington (1981) claims that in a democracy, the ultimate responsibility for a country's military strategy belongs to the civilian political leadership. If, instead, the military controls the political decisions, it is a military dictatorship. In the same way, the ultimate responsibility for a country's economic policy should belong to the political leadership. If economists control it, it is a technocratic dictatorship.

In spite of Arrow's (1951) impossibility theorem, most economists accept—at least in theory—the idea that social preferences should be determined through a democratic process and that the role of an economist is simply to maximize the social welfare function derived from these preferences. In practice, many of us economists, both in our theoretical work and in our policy advising, seem to break this separation and take a more patronizing attitude, where we claim (explicitly or not) that we know what is good for society more than its elected representatives do. Thus, rather than playing a mere advisory role, we use our tools and expertise to impose our view. When we do so, however, we generally do not question the principles of democracy, but we identify a reason why the political system fails to represent the will of the majority. Thus, the substitution of our preferences in place of those of the majority becomes not only legitimate but also necessary to fix the political failure. It is a dangerous process, whose causes and remedies I try to explore in this short essay.

Tucker (2018) studies the problem of political limits of experts in the context of independent government agencies. He designs five principles of delegation that should prevent excessive power grabbing by experts. By contrast, I focus on what we economists can do inside our profession to ameliorate this problem.

I. Political Failures

A. *Voters' Alleged Stupidity*

The crudest form of political failure is that assumed by Jonathan Gruber, President Obama's advisor on the health-care reform. In a panel discussion at the University of Pennsylvania, he frankly said what many economic advisors are too afraid to express: the Affordable Care Act was deliberately written "in a tortured way" to disguise the fact that it creates a system by which "healthy people pay in and sick people get money." The obfuscation was necessary due to "the stupidity of the American voter."[1] The presumption, therefore, is that a majority of American voters do not want a health-care system that pools risk because they are ignorant or stupid, and thus the role of the advisor is to implement this system anyway—if necessary obfuscating the effects from voters, so they cannot possibly undo it.

This attitude is not unique to Gruber or to the Democrats. Phillip Swagel, a senior official in the Bush administration, wrote that "underpricing insurance coverage is economically similar

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[1] Jonathan Gruber, "The Role of Economics in Shaping the ACA and How Economics Can Inform Inevitable Midcourse Corrections," Plenary Panel Discussion, 24th Annual Health Economics Conference, October 17, 2013. YouTube video, https://youtu.be/G790p0LcgbI.

to overpaying for assets—but it turns out to be far less transparent" (Swagel 2009, p. 60). He regards this insight as a key advantage of the Obama administration's strategy. Again, the idea is that voters are stupid and prevent us economists from doing the right thing (in this case, overpaying for toxic mortgages to relieve the banking sector).

B. *Politicians Are Myopic*

An only slightly more sophisticated version of the above argument is the one advanced in Blinder (1997). "Myopia is a serious practical problem for democratic governments," Blinder writes, "because politics tends to produce short time horizons—often extending only until the next election, if not just the next public opinion poll. Politicians asked to weigh short-run costs against long-run benefits may systematically shortchange the future" (p. 120). The implicit assumption here is that economic experts do not suffer this myopia. It is unclear whether this is because economists have different incentives or because of some intellectual superiority of the category.

Given these assumptions, Blinder concludes that Americans "have drawn the line in the wrong place, leaving too many policy decisions in the realm of politics and too few in the realm of technocracy" (p. 116). Hence, he advocates the creation of more independent agencies like the Fed in the areas of taxation, trade, the military, etc.

C. *Time Inconsistency*

A more refined version of the previous attitudes stems from the time inconsistency literature (Kydland and Prescott 1977). This version does not question people's ability to vote according to their own preferences, but it questions voters' ability to vote strategically, taking into consideration the long-term consequences of their decisions. Take, for instance, the example of capital taxation. Lower capital taxation leads to higher savings, but once the capital generated by these higher savings is in place, the government will be tempted to tax the sunk capital. In the model, even the most benevolent government cannot resist this temptation, because ex post taxing sunk capital is the least costly way to raise revenues.

The assumption underlying this model is that voters do not understand the consequences of the government deviating from the optimal long-term policy and do not punish their elected representatives for doing so. When George H. W. Bush deviated from his pledge—"read my lips, no new taxes"—he failed to be reelected. German voters would certainly punish a government that violated a pledge to maintain low inflation, even if this violation had produced a temporary rise in employment. In sum, the idea is that unlike voters, economists understand the value of commitment. Thus, they need to build this commitment through the creation of some institutions, like an independent central bank run by economists.

All three models also deliver as optimal strategy some nontransparent actions undertaken by economists or other administrative personnel and justified by the desire to maximize the very welfare of recalcitrant voters. In the time inconsistency literature, this action is a commitment institution, whose functioning is more assumed that explained.

D. *Economic Inconsistency*

The most explicit form of substitution is when we economists de facto abrogate an existing law because we deem it inconsistent with economic thinking. This is the case with the Robinson–Patman Act. Approved in 1936, the act aimed at "protecting small business firms from competitive displacement by mass distributors at a time of general economic distress" (Rowe 1980, p. 508). In spite of several attempts to repeal it, the Robinson–Patman Act is still on the books. Yet it is not enforced, because we economists found it "inconsistent with the antitrust goal of promoting competition" and have de facto abrogated it: in the past two decades, the Federal Trade Commission filed only one case (Blair and DePasquale 2014, p. S214).

Interestingly, promoting competition was not the legislators' (only) goal in passing most US antitrust laws. Why is Robinson–Patman not applied?

In the 1970s, the introduction of economic analysis to antitrust law led to a focus on consumer welfare as the only goal of antitrust (Bork 1978). Once this idea became mainstream, laws like Robinson–Patman could be "repealed" for manifest inconsistency with this overarching goal (chosen by us economists).

E. *Political Inconsistency*

Acemoglu and Robinson (2013) points out that good economics is not always good policy, since good economic policy could adversely affect future political equilibria. The authors' solution is to incorporate the political consequences of a policy into our economic models and derive policy advice that considers those consequences.

I fear that this strategy blurs economics and politics even further. If an economist believes that lowering wages increases employment and that reducing the power of unions reduces wages, how should he advise a president elected with a mandate to boost employment? Should he provide her the option to reduce the power of unions to achieve her objective (while warning her about the possible political consequences), or should he omit this option altogether because he is personally against it? Worse yet, should he suggest this option, when better options to boost employment are available, because he likes the political outcome?

The latter would be good political advice if delivered by a political consultant, but it would be fraudulent economic advice if given by an economic expert. It would smuggle a political objective as technical advice.

This problem is particularly severe when the International Monetary Fund does the policy advising. Should an International Monetary Fund advisor care whether his recommended policies lead to the fall of a country's current leader? Does the answer depend upon whether the current leader was democratically elected or is a brutal dictator? Where does the economic advice end and the political advice begin?

II. Eat Our Own Cooking

To help reestablish the proper boundaries between economics and politics, we economists should start applying our powerful methodology to our own discipline.

In doing so, we would discover that we are victims of a "nirvana fallacy." We compare failures of the political process with an idealized version of philosopher-king experts. Not surprisingly, the latter always win. If we are not just power grabbing but trying to fix an inefficiency, we should compare the magnitude of the political failure with the distortions produced by our intervention. Once again, these distortions are the same ones we identify in other actors.

First, we have self-motivated beliefs, and we exaggerate the importance of political failures whenever doing so increases the role reserved for our economic expertise. By contrast, we might ignore them when they do not fit in our models. For example, Gilens and Page (2014) shows that US government policy seems to respond more to the interests of economic elites than to the preferences of the majority. While this seems a first-order distortion of the political process, I am not aware of any economic model designed to address it.

Second, our preferences are not well aligned with those of the rest of the population. We tend to be more selfish (Frey and Meier 2003) and to trust both markets and government intervention more (Sapienza and Zingales 2013).

We economists can also be captured by future employers or data providers, as regulators are (Zingales 2014).

Our sense of superiority vis-à-vis other disciplines makes us especially prone to groupthink (Janis 1972). The result is excessive conformism, especially on ideas that are very far away from those of the rest of the population, a pattern consistent with the findings in Sapienza and Zingales (2013).

Last but not least, neoclassical economics separates efficiency and distribution, focusing only on the former. Thus, the (implicit) preferences embedded in our approach are not politically neutral, but they clearly favor the strongest players, who—in the absence of any distributional concern—will capture the larger share of the benefits.

Though we claim our advice to be "scientific," we cannot pretend to ignore the bigger game our advice is playing any more than physicists at Los Alamos could ignore the impact of theirs.

If we really have the courage to eat our own cooking, we should also subject economic intervention in policy to a rigorous cost-benefit analysis. But can we be trusted to analyze our own costs and benefits?

III. Inclusive Economics

It is difficult to evaluate ourselves. It might be easier to reduce some of the forces inside our discipline that push us to overextend our mandate in the political realm or at least that make this intervention more distorted.

One step in this direction is re-embedding economics in the social sciences. Economics purports to derive absolute truths. Yet when we analyze these truths historically, we quickly discover that they are very time dependent. Similarly, if we analyze them across broad economic areas (e.g., Europe versus the United States), we find that they vary geographically. If we analyze them by the source of funding of the institutions where the research is produced (private versus state-funded universities), we find that they vary along that dimension, too.

By not studying the rest of the social sciences, we economists end up being unconscious victims of forces those sciences study. Without serious training in them, it is very difficult to acquire greater awareness.

Another step is to develop more tolerance for heterodox research. When Ignaz Semmelweis reported his evidence that washing doctors' hands with chlorine reduced childbed fever, his claim was rejected for lack of scientific reasoning (Carter and Carter 2005). Rejecting data with theory (rather than the other way around) is still quite widespread in economics. This problem is exacerbated by the sense of superiority we economists have developed vis-à-vis other social scientists. The tolerance for alternative/heterodox views is very limited, contributing to groupthink and to the divergence of the academic literature from real-world problems.

Finally, a famous economist warned me that an economist should never criticize another economist in front of noneconomists (a rule I am bluntly failing). It is clearly a form of collusion, which benefits the power and the prestige of our profession. Yet the monopoly on ideas that stems from this collusive behavior maximizes the risk of expert failure (Koppl 2018).

Greater diversity in the profession (not only diversity in terms of gender and race but also socioeconomic and cultural diversity) would reduce not only the risk of groupthink but also the opportunity for collusion and the consequent expert failure.

IV. Conclusions

Economists' trespassing into political decision-making has grown enough to become dangerous. It is dangerous for the democratic nature of our society, and it is dangerous for the long-term reputation of our profession. Historically, when central banks reached great power, they ended up losing it because of political backlash (Tucker 2018). Unless we start to analyze our own limitations with the very same tools we apply to others, we run the risk of suffering the same fate.

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