

Advising Politicians in the New Age of Uncertainty
Sherry Davis Kasper
Maryville College
6804 Stone Mill Dr.
Knoxville, TN 37919
E-Mail: sherry.kasper@maryvillecollege.edu

Richard Parker argues in *John Kenneth Galbraith* (2005) that, in part, *The Age of Uncertainty* project was a response to the growth of technically sophisticated research that no longer could serve effectively in public policy discussions. A similar trend has occurred in this new “age of uncertainty,” where economists increasingly sit on the sidelines in policymaking discussions. For example, as recently as July 2018, Stephanie Flanders of *Bloomberg News* was investigating why “Economists Have Lost the Trust of Politicians” (2018) and, in August, Jared Bernstein of the Center on Budget and Policy Priorities was asking “Have Politicians Stopped Listening to Economists?” (2018). This paper explores the potential for institutional economists to bridge this divide, focusing on those individuals who directly advise politicians rather than those who work in government bureaucracies. Initially, it reviews the discussion about how economists and politicians interface. It continues by detailing recommendations made for improving their interactions. It concludes by analyzing the opportunities for institutional economists to improve this situation.

Economists and Policy Making over Time

In a recent question and answer session, Kevin Hassett, current Chair of the Council of Economic Advisors (CEA), described his job as one of “provid[ing] the unbiased advice of an economics professional” (2018). In that depiction, Hassett presents what economist Robert H. Nelson characterizes as the progressive view of the

professional expert, which emerged as the prevailing role for economic policymakers in the early part of the twentieth century (Nelson 51). In this situation, the economist provides opinions to politicians as a neutral technician, “a professional expert who advises government in technical and scientific matters and takes social values and political preferences as given” (Nelson 53). This view became particularly well-suited to the style of economic reasoning adopted by economists after World War II. In essence, increasingly abstract mathematical models populated by rational economic agents provided the veneer necessary for a perception of unbiased advice.

According to Nelson, political scientists relinquished the ideal of the neutral professional expert in the 1950s and 1960s. This change resulted from their observation that the progressive view evinced “excessive optimism about disinterested reason,” (Nelson 54). Their new view of policymaking conceived of the economist as an “entrepreneur for efficiency” in the prevailing method of policymaking: interest-group politics (Nelson 54).¹ In this situation, policymaking became the process of “political bargaining among affected interests,” with the economist becoming the advocate “for the diffuse and otherwise weakly represented interests of the general citizenry, acting as a counterweight to the pervasive special interest group pressures exerted by the beneficiaries of particular government programs” (Nelson 55 and 56). In addition, economists focused on developing and representing policies that promoted efficiency.

By the end of the twentieth century, political scientists described a new type of policy maker: the “ideological combatant” (Nelson 56). In this situation, both interest

¹ Unlike most economists of this era, John Kenneth Galbraith also recognized the power of interest groups politics in his theory of countervailing power (1956). Geroge Schultz also (1974) described economists as representatives of the national interest in interest-group politics.

groups and ideology compete in the policymaking process. In the case of economics, the majority of advice drew on the tools that were an outgrowth of the ideology of orthodox economics: “the economic ideas of opportunity cost, marginal trade-offs, benefit-cost analysis, property rights, incentives, supply and demand” (Nelson 57-8). Carl Kaysen, a member of the CEA during the Kennedy Administration, described this situation:

The confidence of economists’ policy recommendations is essentially ideological: it rests on their commitment to the competitive market as an ideal, and the consequent belief that any step in that direction of the ideal is desirable. The role of the economist in policy formation in these areas is almost diametrically opposite to that envisaged in the formal theory of policymaking. . . . He functions primarily as a propagandist of values, not as a technician supplying data for the pre-existing preferences of the policy makers (1968 82-83).

Thus, Nelson argued that political scientists identified an evolving role for experts in policymaking – from neutral technicians, to the voices for efficiency in interest-group politics, to ideological advocates. The discussion continues by exploring more deeply how economic advising fits into this framework.

Recent examinations by orthodox economists of the role economists play in policymaking highlight their insignificance. In the 2014 paper examining the political effects of economics, Daniel Hirschman and Elizabeth Popp Berman note that:

“Economics is often described as the most politically influential social science and economic advice is often largely irrelevant in prominent policy debates” (779).

Similarly, Alan Blinder in his 2018 book *Advice and Dissent* has advanced what he terms the lamppost theory of economic policy: “Politicians use economics in the same way that

a drunk uses a lamp post – for support rather than illumination” (1). They proceed to investigate what led to this state of affairs.

Hirschman and Berman’s tasks consists of conducting a cross-literature review: of political science in terms of ideas, politics and epistemic communities; of sociology in terms of profession and expertise; and of science studies in terms of the use of sociotechnical tools. They identify three broad avenues for economists to affect policymaking. First, economists influence policymaking in terms of their professional authority, which “refers to the overall status of the economics discipline” (Hirschman and Berman 781). Second, they gain sway by virtue of their institutional position, which refers to “the presence of economists in policy making organizations or elite networks” (Hirschman and Berman 781). Finally, economists gain influence in policymaking with their cognitive infrastructure, which refers to “economics *styles of reasoning* . . . [which] are similar to core principles and ways of approaching problems” (Hirschman and Berman 781). Note that the first two avenues echo Nelson’s concept of interest-group politics, emphasizing the position of a particular group of people in policymaking. The third avenue harkens back to Nelson’s idea of the tools used by the ideological advocate.

Hirschman and Berman go on to note three key findings from their cross-literature review. First, economists have more influence in policymaking when the situation is uncertain, either at a point of crisis or early in the policy formation process. Second, they have more success when they can “define some policy questions as essentially technical” and which they are better qualified to answer (Hirschman and Berman 788). Finally, economists have a better opportunity to influence policy via indirect channels, rather than as official policy makers. (Hirschman and Berman 788).

Blinder's description of what type of advice economists provide also blends together Nelson's concepts of interest-group politics and ideological advocacy, comparing the actions of economists and politicians in the policymaking process. In terms of interest-group politics, he states that economists recommend policies which benefit the overall national interest, but that often "inflict costs on the few to secure benefits for the many"; in contrast, politicians champion "constituent-based policies" (Blinder 134-135). Additionally, the economist focuses on the long term, where the benefits are unseen or might occur, while the politician is focuses on the short term (Blinder 42-43). In terms of ideological advocacy, the economist uses the style of orthodox economic reasoning to give advice: cost-benefit analysis and the comparison of equilibrium situations, at the same time oftentimes ignoring the issues of equity and the transition costs of moving from equilibrium to equilibrium (Blinder 28 and 169). In contrast, politicians must pay attention to the winners and losers of a particular policy; in fact, Blinder highlights the refusal of economists to pay attention to equity as one of the key issues "ensuring their own irrelevance" (28). Likewise, politicians recognize that policymaking is path dependent, and the transition process will have an important effect on the outcome of a policy (Blinder 61 and 307). Blinder adds that the current situation is further complicated by the fact that economists often do not pay attention to messaging, in distinction to the necessity for politicians to "keep their messages short and punchy because political discourse has limited room for complexity" (73). Blinder is clearly torn by the challenge of messaging. On the one hand, clear messaging honors Thomas Jefferson's self-evident truth that "'governments are instituted among men deriving powers from the consent of the governed'" (76). On the other hand, he believes

that the average citizens, [the constituents of politicians], have little incentive to educate themselves about economics, a subject that alternatively perplexes them and induces slumber” (Blinder 134). Ultimately Blinder concludes that “sound economics and sound politics clash” (134).

In the final analysis, several key themes emerge. First, while economists still aim to present themselves as neutral technicians, their actual role in the policymaking process has emerged as that of a participant in interest-group politics as an advocate for efficiency.² In addition, they most often rely on a style of economic reasoning using tools implicitly biased toward to the goal of efficiency. To influence the policymaking process, they must possess professional authority and a place in social networks that are intimately connected to the orthodox style of economic reasoning, while using a disciplinary language that is often off putting to both politicians and the public.³

Recommendations for Providing Policy Advice

Nelson, Hirschman, Berman and Blinder offer numerous recommendations for economists to regain influence in the policymaking process. Nelson argues that

² Interestingly, in a 2017 article in the *Journal of Economic Issues*, Joseph Stiglitz, former chair of the CEA, also focused on the limitations of the generally accepted style of economic reasoning. He argued that was hard to advance economic policies that would improve the lives of the majority of citizens, because discussions rested upon traditional assumptions about a “kind of rationality” in market behavior and democratic processes that do not exist (364).

³ Institutional economist Thomas Kemp reported similar findings “about the process through which legislation becomes law” in his experience as a City Council Member in Eau Claire, WI (2009 449). His observations highlight interest-group politics and the economic style of reasoning used in policymaking. He discovered: little of what is said during open sessions affects subsequent laws; successful policy takes into account existing power structures; democracy works best when “the relevant institutional forces cancel each other out”; and “nobody will be convinced of anything using theoretical economic arguments – orthodox or otherwise” (Kemp 450).

economists need to recognize that they are not neutral technicians, but rather serve as entrepreneurial advocates. To accomplish that task more effectively, economists “need to invest greater effort in improving writing skills, facility in reasoning by analogy, command of institutional details, knowledge of legal processes and reasoning, and political awareness and savvy” (Nelson 1987 86). In addition, they should “give more attention to the big picture” (Nelson 86). Finally, they should recognize that “it is usually simple data, rather than sophisticated econometric studies, that are more influential” (Nelson 86).

Hirschman and Berman first suggest that economists need to work on gaining significant positions in the “policymaking apparatus,” either with formal roles or key places in social networks (790). They appear to take the orthodox style of economic reasoning as sufficient, recommending that economists reshape it via teaching economics to politicians or developing what they call policy devices that help policymakers see the economy more clearly, as what Kuznets did with national income accounting (Hirschman and Berman 790).

In contrast, Blinder clearly points out the limitations of the orthodox style of economic reasoning in his recommendations. Economic policy makers must remember that real people do not act like “the caricatures who inhabit our models; they must realize the most people care more about fairness than efficiency; they must acknowledge that the sequencing of policymaking is crucial; and finally they must recognize that transition costs are important because a person “lives in transition costs almost all of the time (Blinder 305-307). Blinder also emphasizes that economists must speak in English, not

jargon and recognize that the message matters for the politicians and the constituents to whom they convey their positions (Blinder 305).

Can Institutional Economists Regain Influence in Policymaking?

Since World War II, orthodox economists gained professional authority and institutional position in the policymaking by using their mathematical style of economic reasoning and by cleaving to the role of unbiased technician. Simultaneously, this approach appears to have sowed the seeds for their current loss of influence with politicians. First, most economists either lost or never developed the ability to talk clearly with politicians or the public. Second, the style of economic reasoning like policy tools, including opportunity cost, cost-benefit analysis and marginal trade-offs, ignored important questions on the minds of politicians. As a result, economists have become, too often, a source of support for a partisan idea previously adopted by a politician, rather than a starting place of illumination for policies that serve the national interest. And, in fact, Galbraith had already foretold aspects of this problem in his Presidential Address to the AEA: “in eliding power – in making economics a non-political subject – neoclassical theory, by the same process, destroys its relationship with the real world” (Galbraith, 1973, 2).

At first glance, institutional economists certainly face an immense challenge in gaining influence as policy advisors. Quite simply the style of economic reasoning used by institutional economists differs markedly from the abstract, mathematical style used

by orthodox economics. As a result, they have lost the professional status and institutional position they had in policymaking prior to World War II.⁴

At the same time, the style of economic reasoning employed by institutional economists could provide them with an opportunity. The approach developed by institutionalist John Commons, an effective policy advisor in the early part of the twentieth century, provides one exemplar. He argued that the most useful way to analyze the economy was through studying how formal and informal institutions shaped individual actions. All institutions have working rules, which specify “what individuals can, must, or may, do or not do, enforced by collective sanctions” (Commons 1931, 650). Alterations in the working rules through the use of political power, the process of common law, or the implementation of economic policy are mechanisms by which humans can change institutions over time in a socially beneficial manner. Note that with this style of reasoning, institutional economists already possess the tools that provide the answers politicians are seeking. They consider the actions of real people, rather than the rational economic agents of orthodox economic models. Furthermore, the concept of working rules takes into account how real people use power to shape the outcomes of policies. In addition, the evolutionary nature of institutional analysis inherently considers transitions costs from one policy rule to another. Finally, analysis of the potential performance of a policy extends beyond efficiency to issues of who benefits and bears costs and the consequent equity of a particular rule change.

⁴ See Malcolm Rutherford (2011) for a description of the prominent role institutional economists played from 1918 to 1947. Kasper (2012) describes the particular experience of Eve Burns, who played a prominent role in the development of the social security system, who was forced out of the Columbia University economics department and later went on to found a public policy program using institutional economics in the Columbia School of Social Work.

Another opportunity for institutional economists exists in the current state of policy advising. As Hirschman and Berman noted, economists have more influence in policymaking when the situation is uncertain, either in a point of crisis or early in the policy formation process. If politicians are either ignoring policy advice or looking to economists for confirmation, the time could be ripe for institutional economists to provide more thoughtful illumination.

Nonetheless, a daunting dilemma remains with the current status of institutional economists in the wider economic profession. Is there any way to change this situation? I think John Kenneth Galbraith offers one possibility. As Parker noted, Galbraith “willingly embraced the idea that the economist was directly obliged to speak to, and persuade, the nonprofessional public, just as Keynes had done” (Parker 2004, 298).⁵ Thus Galbraith rejected the profession’s post World-War II pattern of “elegant descent of economic knowledge discovered by the most enlightened (theorists) to the less so (specialists in policy), and thence to political and financial or business elites, and eventually to an often ignorant ‘general public’” (Parker 2004, 298). And, in contrast to Blinder, Galbraith did not want to give up on trying to educate the constituents of politicians; rather he embraced a style of economic reasoning that “affirmed not only the right but the duty of a democratic public to participate fully in determining its economic priorities and rules” (Parker 2004, 298). As a result, he designed his style of economic reasoning as “an appeal to the public’s ‘common sense,’ in the richest sense of that term . . . mixed with abstract theory and applied policies; values are reaffirmed that endorse the citizen’s skepticism about powerful, self-serving, pompous, and sometimes misguided

⁵ See Kasper (2010) for a similar analysis of the role of the impact of Keynes’s activity as a public intellectual.

elites; and the goals are proposed that entail a substantial reordering of the economic system itself in the name of democracy and of greater political and economic equality” (Parker 2004, 298).⁶ Thus, I think by following Galbraith’s lead, an avenue for institutional economists to regain influence exists. We have the tools of economic reasoning that politicians seem to desire. We now need to improve our ability to communicate with policy makers and the public, which requires writing for and speaking to them, not merely for each other in the academic journals. Furthermore, we need to write and speak clearly about our analyses of economic policy to both politicians and the public. These investigations need to take into account the complexity of the economy and the impact that economic policies have, not merely in terms of efficiency but also in terms of the implicit values they represent, how they will affect the evolution of the economy, and their impact on the winners and losers from any policy action. The process will be slow, but, nonetheless, the opportunity exists.

⁶ Chirat (2018), in his excellent article about the controversy surrounding the 1976 BBC broadcast of *The Age of Uncertainty*, recognizes these same characteristics of Galbraith’s style of economic reasoning, terming it the role of economist as populizer.

References

- Bernstein, Jared. "Have politicians stopped listening to economists?" *Washington Post*, August 6, 2018.
- Blinder, Alan. *Advice and Dissent: Why America Suffers When Economics and Politics Collide*. New York: Basic Books, 2018.
- Chirat, Alexandre. "When Galbraith Frightened Conservatives: Power in Economics, Economists' Power, and Scientificity" *Journal of Economic Issues* 52,1 (2018): 31-56.
- Commons, John R. "Institutional Economics," *American Economic Review* 21 (1931): 648-657.
- Flanders, Stephanie. "Economists have lost the trust of politicians," *Bloomberg*, July 31, 2018.
- Galbraith, John Kenneth. *American Capitalism: The Theory of Countervailing Power*.
- _____. "Power and the Useful Economist," *American Economic Review* 63, 1 (1973): 1-11.
- Hassett, Kevin. "Question and Answer Session." Knoxville Economic Forum, November 27, 2018, Club LeConte, Knoxville, TN.
- Hirschman, Daniel and Elizabeth Popp Berman. "Do Economists Make Policy? On the Political Effects of Economics," *Socio-Economic Review* 12 (2014): 779-811.
- Kasper, Sherry Davis, "The Legacy of Keynes as a Public Intellectual," In *Keynes's General Theory after Seventy Years*, edited by Robert W. Dimand, Robert A. Mundell and Alessandro Vercelli, (2010): 43-62.
- _____. "Eveline Mabel Burns: The Neglected Contributions of a Social Security Pioneer," *Journal of the History of Economic Thought* 34 3 (2012): 321-337.
- Kaysen, Carl. "Model-Makers and Decision-Makers: Economists and the Public Policy Process," *The Public Interest* (Summer 1968): 80-95.
- Kemp, Thomas. "An Institutional Economists Goes to City Hall: A Sociological Study of the Legislative Process," *Journal of Economic Issues* 43, 2 (2009): 449-456.
- Nelson, Robert H. "The Economics Profession and the Making of Public Policy," *Journal of Economic Literature*. 25, 1 (1987): 49-91.
- Parker, Richard. *John Kenneth Galbraith: His Life, His Politics, His Economics*. New York: Farrar, Straus and Giroux, 2005.

Rutherford, Malcolm. *The Institutional Movement in American Economics, 1918-1947: Science and Social Control*. Cambridge: Cambridge University Press, 2011.

Schultz, George P. "Reflections on Political Economy," *Journal of Finance* 29, 2 (1974): 323-30.

Stiglitz, Joseph. "Countering the Power of Vested Interests: Advancing Rationality in Public Decision-Making," *Journal of Economic Issues* 51, 2 (2017): 359-365.