PRESIDENTIAL ADDRESS

STIGLER'S LAMENT

Alan S. Blinder
Princeton University

George Stigler, the Nobel prize winner in economics in 1982, once wrote that "economists exert a minor and scarcely detectable influence on the societies in which they live" [Stigler, 1976, 351]. Whether or not Stigler's lament was true 30 years ago — and I am sure he was exaggerating his point to make a point — it is surely less true today. Socialism has been replaced by capitalism almost everywhere. Economic regulations have been rolled back or softened in many countries, most notably in the United States. For better or for worse, and there has been some of each, the notion that maximizing shareholder value should be *the* goal of the corporation has become deeply ingrained, again especially in the U.S. Options, including nowadays even non-marketable stock options granted to executives, are now routinely priced by the Black-Scholes formula. Central bankers now not only think and talk like economists, they often *are* economists. On these and many other issues, the thoughts and writings of economists have been highly influential.[1]

But, all that said, I think it is clear that most economists are still *frustrated* by how *little* influence sound economics has on public policy, not *elated* by how *much*. From the mess that is our tax code, to the constant calls (sometimes heeded) for trade protection, to the continued resistance to peak load pricing in many domains (though it is accepted in others), and in much else, policy advice from economists is often treated like what I call "air duct remarks": Statements that are uttered at a meeting, promptly ignored by everyone else in the room, and conveniently wafted away by the air filtration system.

Today, I will examine Stigler's lament from two complementary perspectives. The pessimistic perspective concedes that Stigler had a point, and asks why economists' contributions to the practical world are not larger than they are. The optimistic perspective takes note of the increasing influence of economists and economic ideas since Stigler published those words 30 years ago, and it asks what we economists can do to make the social marginal product of economic advice even greater than it is today.

Before you bolt for the door, let me make it clear that this will *not* be another one of those tiresome lectures about how wonderful it would be if only those foolish and feckless politicians would listen to the well-reasoned and disinterested — if not downright brilliant — advice of economic experts. Or, to be more accurate, it will not be *only* about that, for I do actually have a good deal to say about how and why good politics is often the mortal enemy of good economic policy. But my main, and far more important, message is just the opposite: that a considerable portion of the blame,

Alan S. Blinder: Department of Economics, Princeton University, 105 Fisher Hall, Princeton, NJ 08544-1021. E-mail: blinder@princeton.edu.

Eastern Economic Journal, Vol. 32, No. 3, Summer 2006

perhaps even most of it, lies with us economists. I will argue that several critical ingredients are missing from what economists typically offer as good advice—ingredients which, if provided, would make the recipe more digestible politically without impairing the economic nutrition. In doing so, I will use standard economic concepts to illustrate how the *supply side* of the market for economic advice could be improved. Starting right now.

You can think of this as a lecture on a particular type of *market failure* — a mismatch between the *demand* for economic advice from politicians and the *supply* of economic advice from economists — and what might be done to remedy, or at least to mitigate, that mismatch. The market for economic advice is one in which supply most emphatically does *not* create its own demand, much as we suppliers might wish otherwise. With Say's Law failing so miserably, I will take the Keynesian perspective and argue that we need to let demand create its own supply. And I'll mention a few concrete ways to do this.

If a general principle underpins this analysis, it is that policies will not and should not be adopted in a democracy unless they are judged acceptable by the majority (or their representatives). But rather than offer a disquisition on abstract principles of political choice, I prefer to illustrate my points with examples. Please pardon me for using what may seem like ancient history by now, but the cases I know firsthand come from the Clinton administration — which, by the way, probably had the best economic-policy record in memory. Let's start with this one:

A CASE IN POINT

In the fall of 1993, a proposal for a balanced-budget amendment to the U.S. Constitution put President Bill Clinton in a tight political spot. The economics were dead wrong, and he knew it. But he also knew that public opinion overwhelmingly supported the amendment. And he could therefore confidently predict that large majorities in both the House and the Senate would vote for it, even though many legislators knew it to be atrocious public policy.

Most important, the rookie President had just come through a political near-death experience in pushing his deficit reduction program through a balky Congress. In the process, Clinton had somehow transformed what had once been called "root canal economics" — the apportionment of pain via raising taxes and cutting programs— into the holy grail of American politics. How could he now turn around and oppose an amendment that would inscribe fiscal rectitude in the Constitution?

The nature of the public-relations problem was clear. Consider three related policies: (1) reducing the budget deficit, (2) balancing the budget, (3) enacting a constitutional amendment to require a balanced budget. To the cognoscenti, these three are quite different animals. But they sound awfully similar to a layman. If deficits are really so bad, why not go all the way to zero? And why not amend the constitution to ban them forever? So opposing the balanced-budget amendment would put President Clinton in an awkward, even seemingly inconsistent, position. We economists were therefore worried about what he might decide to do. So were the administration's political types, though for precisely the opposite reasons.

But Clinton didn't cave. In a letter to then-Senate Majority Leader George Mitchell, the President forthrightly declared his "firm opposition to the proposed balanced budget amendment," noting among other things that it "is, in the first place, bad economics." To a policy wonk, that sounds like the end of the story. Debate over. The President heard the economic arguments, considered the likely political fallout, and made the right call. Good policy triumphed over good politics for a change.

If only life were that simple. In fact, Clinton's letter was the beginning, not the end, of a protracted battle to defeat the balanced-budget amendment in Congress. And we economists were of little use in this battle because the substantive arguments against the amendment barely registered on Capitol Hill. Many Members of Congress knew all the arguments and yet were still prepared to vote for a constitutional amendment.

The field general of the administration's campaign to defeat the balanced-budget amendment was not an economist at all, but a skilled politician: Leon Panetta, a former congressman from California. Panetta was then Clinton's budget director, and he recognized the proposed amendment for what it was: an economic and legal abomination. But he also appreciated its political allure, and he understood something that we political neophytes did not: that logic is a pretty ineffective weapon when you are battling an atrocious policy that sounds politically attractive. Some Members of Congress were irrevocably locked into supporting the amendment because of campaign promises; no amount of logic would budge them. Others who were leaning in that direction might possibly be persuaded to do the right thing. But to move a "yes" vote into the "no" column, Panetta knew, we had to provide political cover. Two things were required.

First, legislators needed better reasons to oppose the amendment—better, that is, than the astute, logical arguments offered by economists and legal scholars. Furthermore, those reasons had to be customized for each wavering member. So for Senator Wheat the argument might be, "But Senator, under this amendment, farm subsidies would surely have to be cut." For Senator Pentagon, it could be, "Senator, don't you realize that the balanced budget amendment could require drastic cuts in defense procurement?" And so it went, in hand-to-hand political combat, one vote at a time. This is not the way policy debates are conducted in the academy. But it did bring the nature of budget constraints home to members of Congress.

Second, we had to give members something they could vote *for*. Courage is in chronically short supply on Capitol Hill, and the balanced-budget amendment sounded like the epitome of fiscal virtue to most voters. Elected officials in a democracy cannot afford to get too far ahead of their constituents, even if they know better. So to give political cover, the Democrats offered several alternative constitutional amendments, including one that would have required a balanced budget *excluding Social Security*.

While it later became a reality (albeit briefly), achieving balance by this more exacting definition looked absolutely impossible at the time. So the proposal would never pass. But it created some attractive political atmospherics. A Congressman could cast a cosmetic vote in favor of a balanced-budget amendment that exempted Social Security and then oppose the real thing. Having done so, he could tell the folks back home that he supported the right sort of balanced budget amendment, but not one that threatened their Social Security benefits.

In the end, Panetta's wise strategy prevailed. But the process took months and required both patience and political sophistication. The economists' conceptual arguments against the balanced-budget amendment counted for little. Had those been the main weapons, a constitutional amendment might well have passed both houses of Congress and been sent on to the states for ratification.

The moral of this story is the moral of this paper: Good economic ideas are not nearly enough in a democracy. The political force must be with you, for citizens of a democracy are governed by politicians, not by technocrats. Which is as it should be.

POLITICS TRUMPS ECONOMICS...

Politics regularly makes a hash out of economic policy for many reasons. Some of them are valid, for no society can or should live on economics alone. But others are unfortunate — and occasionally do grievous harm to policy. Let me take those up first.

Time horizons and transition costs

I begin with the matter of *time horizons*, which are quite long in much of economic analysis and excruciatingly short in politics. Economists like to think of this issue as the *choice of the social discount rate*, short time horizons being equivalent to high discount rates. But the two are not quite the same.

The dispassionate economic reasoning favored by academics is extremely useful when it comes to prescribing appropriate long-run, ahistorical remedies. But it can be pathetically inadequate when it comes to analyzing the short-run consequences of policy changes or the process of getting from here to there in real time. For example, any economist worth his salt (and most who are not) can explain to you why free trade is good for a nation.[2] But, truth be told, some people lose their jobs any time international trade is liberalized. In economics, we refer to painful adjustments like that as "transition costs," which makes them sound like small potatoes. Then we proceed to ignore them. But to an older worker who loses his job to foreign competition, the "transition" might constitute the rest of his working life.

The contrast with politics could hardly be sharper. That politicians cannot see past the next election is a common lament, but the truth is actually far worse. The political pros who advise politicians often cannot see past the next public opinion poll. In fact, their natural time horizon extends only until that evening's news broadcasts. If you want to call that a high discount rate, go right ahead — but the discount rate would have to be in the millions of percent per annum. While serving on President Clinton's Council of Economic Advisers, I developed a mantra that I murmured repeatedly (usually under my breath) when we economists were arguing with the politicals: "There is no election next Tuesday." But the politicals typically acted as if there were. Their objective was clear: to get past the current news cycle with maximum gain or minimum pain. We'll worry about tomorrow tomorrow.

You Gotta Have a Gimmick

A second generic problem was exemplified by the balanced-budget amendment: There is often a huge chasm between policies that *sound* good and policies that actually *are* good. Political discourse thrives on—indeed requires—simple slogans. So politics often leads to what I have called the T-shirt mentality:[3] To be marketable in the political arena, an idea must be short and snappy enough to be emblazoned on a T-shirt. (Example: "Balance the budget!") But as Alfred Marshall taught us a century ago, any economic idea expressed that tersely is almost certainly wrong; there are always qualifications.

Sometimes it's not a slogan at all, but rather an artificially-selected number that somehow takes on a mystical aura. One stunning example arose soon after Bill Clinton's original five-year deficit-reduction program reached Capitol Hill in early 1993. Someone noticed that, if you added up the five annual deficit reduction figures projected in the plan, you fell just short of $500 billion ($473 billion to be exact). With a bit more oomph, the five-year total could be boosted to the magic $500 billion mark.

Now, such a five-year sum is a pretty unimportant number to which we policy wonks had paid no attention whatsoever in formulating the budget plan. There were far more essential things to worry about, such as the timing of the annual tax increases and expenditure cuts (for aggregate-demand reasons) and how much *permanent* deficit reduction remained into the indefinite future. And, economically speaking, there was no substantive difference between a five-year sum of, say, $473 billion or $500 billion.

But as it turned out, there was a world of difference in the realm of political symbols. So from that day onward, policy was bent out of shape to hit the $500 billion figure. The resolution of such substantive issues as the size and timing of the new tax on gasoline and whether or not the upper-bracket personal income tax increases would be retroactive became prisoners to the precious $500 billion target.

Standards of Evidence

A third problem is that the standards of evidence used to distinguish between good and bad policy ideas are amazingly lax in the political arena. There is a tremendous irony here. In the academic world, where we routinely prepare papers that perhaps two dozen other people will ever read, the standards of evidence are quite strict. Proofs must be exact. Econometric techniques must be up to snuff. Scholarly papers routinely get rejected by journals for picayune errors. And what is at stake in the answer? Nothing but intellectual integrity. But in the world of policy, where so much is at stake, the hurdle of evidence is set pathetically low.

I felt this paradox viscerally in the early days of the Clinton administration—and I do believe that the Clinton team produced the best economic policy in the U.S. in decades. After only a few weeks of butting heads with the administration's political and message people, it dawned on me that we had developed a tacit but strange working definition of what constituted "good policy:" If a proposal *sounded* good, either in its design or, more commonly, in its objectives, it was taken to be good policy.

So, for example, we successfully championed (over Republican opposition) a large increase in the budget for the Head Start program, which provides pre-school education for underprivileged children. Expanding Head Start was, in my view, an excellent idea; there was even a reasonable amount of statistical evidence suggesting that it had a high benefit-cost ratio — though perhaps not with 95 percent confidence. But wasn't there a limit on the number of dollars than could be spent effectively, even on such a fine program? Surely there was, but we had no notion of how much was enough. In fact, the question of where marginal costs matched marginal benefits never arose.

Speed Kills

A fourth respect in which politics makes minced meat out of rational policymaking is the torrid pace of Washington life. Sometimes the high-speed chase is unavoidable. So be it. But often the people charged with developing policy options are forced to sprint toward deadlines that are artificially imposed by message meisters or politicians. The results are predictable: shortcuts, sloppy work, and errors. That is precisely what tripped up the Reagan economic team in early 1981, as David Stockman, his budget director at the time, later confessed.[4]

When the Clinton administration took office, exactly 12 years later, did we learn from the missteps of the harried Reagan team? No. We emulated them by racing to meet a tight February 17th deadline that was not imposed in any way by law. Why such a rush? (Remember, inauguration day was January 20th.) One key factor was certainly that the Reagan budget had been presented to Congress twelve years earlier on *February 18th*. We would beat them by a day! The breakneck speed inevitably led to several mistakes — none of which, fortunately, proved to be particularly serious or damaging.

Political experts will argue that the orderly, deliberate decisionmaking processes favored by technicians are wont to lead nowhere. You must strike while the iron is hot, else political life will pass you by and nothing will ever get done. That is surely true at certain critical junctures of history, and technocrats should not ignore it. But I do not believe that mad dashes toward artificial deadlines generally produce good policy—whether judged by economic or political criteria. More often than not, haste makes both economic and political waste.

The original Clinton budget plan, which we dashed to complete by mid-February, was pretty well designed given the tight time constraints. But it was not enacted into law until early August. Would, say, a four-week delay in its release date—which would have *doubled* the time the economic team had to work on it—have done the plan any political harm? Looking back further in time, if the Reagan administration and Congress had proceeded at a more deliberate pace in 1981, would Congress have passed a tax cut so wildly excessive that it felt compelled to start repealing it the very next year? Sometimes — no, make that often — slower is better.

Sequencing and "Irrelevant" Alternatives

Another aspect of scheduling in which politics rolls over economics is the sequencing of policy debates in time. Policy wonks rarely give this factor a second thought. But it is always prominent in political minds. And here, I believe, the politicians have got it right.

In the academy, issues are judged one-by-one, each on its own intrinsic merits. The order of battle does not affect the substantive pros and cons, and therefore cannot possibly affect the decisions. If a long-run policy change is judged beneficial in January, it will still be judged beneficial in May. Furthermore, the sequencing of unrelated matters in time should be irrelevant. After all, how could it possibly matter whether the government stakes out its position on a trade agreement before or after it deals with health care reform?

There is a closely-related principle of rational decisionmaking that many of you will remember from graduate school: the *independence of irrelevant alternatives.* Loosely speaking, this principle states that whether you prefer lamb chops to lobster or vice-versa should not be affected by the presence or absence on the menu of some other dish that you dislike (such as sweetbreads).

But the political world does not operate by such neat, rational rules. Seemingly irrelevant alternatives turn out to be maddeningly relevant for a variety of reasons. One is logrolling: If my support for your bill hinges on your support for mine, it may be helpful to take up the two bills closely in time. And since the congressional machinery can cope with only a limited number of serious issues at once, this linkage may crowd other — even more "irrelevant" — issues off the legislative calendar entirely.

Accidents of geography also link issues that are intrinsically unrelated. As Tip O'Neill famously observed, all politics are local; and elected legislators are true experts on what will please and displease their constituents. If the voters of, say, Iowa are asked to swallow some bitter pill (like the loss of a military base), their representatives in Congress may insist on sugar-coating it with some kind of "unrelated" goodie— like an ethanol subsidy.

Another reason has its origins in what might be deemed a more economically legitimate concept: the need to husband valuable political capital. A president or prime minister can augment his stock of political capital with a series of legislative victories, or he can fritter it away in a string of defeats. Each victory raises the leader's political cache, thereby easing the way to subsequent legislative victories. Each loss squanders precious political capital and makes achievement of his remaining agenda more elusive. Even a bruising battle that ends with a "win" can leave a residue of ill will that will hurt later. So presidents and congressional leaders care mightily about the sequencing of issues in time, as they should.

I came to appreciate the importance of sequencing by watching the agenda of the first Clinton administration unfold. And a similar drama played out in the United States last year, when the Bush administration's decision to move Social Security reform first and hold tax reform for later probably doomed tax reform.

Back in 1993, it was decided early on that the budget, which included a great deal of new policy, would have to come first — even though we knew it would encounter fierce political resistance. At one point prior to the President's celebrated February 17th economic address, Hillary Clinton and Ira Magaziner, who headed the health care task force, and George Mitchell and Dick Gephardt, who were then the majority leaders of the Senate and House, argued for bundling a health-care proposal into the budget package. They had two reasons: fear that the large expenditure of political capital that would be needed to pass the budget would damage the chances for health-care reform, and knowledge that the budget reconciliation bill (unlike other legislation) could not be filibustered to death in the Senate. And they were right on both counts. But the idea of melding the budget and health care into one gigantic piece of legislation was vigorously opposed by the economic team and quickly rejected. Among the (good) reasons was a stark fact: No health care plan would be ready by that time.

Late in 1993, the scheduling contest shifted to health care versus the North American Free Trade Agreement (NAFTA). With congressional approval of NAFTA far from assured, and with many members of the President's own party vehemently opposed, it would clearly take a major effort by Clinton to push NAFTA over the top. More political blood would doubtless be spilled in the process, thereby further diminishing the chances for health care reform. A battle royal ensued within the administration over whether health care or NAFTA should be next out of the chute—or, indeed, whether the Clinton administration should devote much political capital to passing NAFTA at all. For a variety of reasons, including the fact that NAFTA was projected to start in January 1994, the decision was made to move NAFTA first. Health care reform would have to wait again, even though it was the president's top legislative priority. In the end, the fears of the health-care team were proven correct: The President *did* spend a great deal of political capital on NAFTA and that *did* hurt the chances for passing health-care reform.

Welfare Functions: Whose Gets Maximized?

Last, but most assuredly not least, economic and political perspectives differ — in deed, though not in word — on this fundamental question: Whose interests should economic policy serve? Or, in the economists' jargon, whose welfare function should be maximized?

Economists instinctively champion the broad public interest and rebel against special pleading — hence the term "*social* welfare function." It's almost a Pavlovian response. We do so even when the promised benefits from a policy—like a broad trade agreement — are diffuse and barely visible to the public at large while the costs imposed on affected people and industries are concentrated and palpable.

Politicians see things quite differently. Naturally, they pay lip service to the national interest, just as they salute the flag. But their stock-in-trade is performing constituent service for an array of special interests — often defined by the boundaries of their legislative district. And they always remember who helped them get elected (and who will help next time).

Politicians and economists agree on one thing: that policies (such as special tax favors) that confer large and visible benefits on the few paid for by small, mostly invisible levies on the many probably win you more votes than they lose, while policies (such as free trade agreements) that hurt identifiable interest groups in order to sprinkle small, diffuse benefits on the amorphous public are apt to be political losers.

But the two sides disagree sharply when it comes to assessing the policy implications of that observation. Economists, or at least those who are not in the employ of special-interest lobbies, invariably take principled if naive stands against special pleading. After all, since we never have to face the voters, nobility costs us nothing. Politicians, who must regularly stand for reelection, are naturally more concerned with self-preservation. Let me illustrate this general point with another Clinton administration example.

The United States once had a large and thriving fleet of merchant vessels. But times have changed, and the U.S. no longer has a comparative advantage in this industry—to put it mildly. Other nations can and do provide commercial shipping services far more economically than America can. What remains of our shipping industry is largely on life support—including generous subsidies from the federal government and restrictive legislation that mandates the use of U.S. carriers on certain routes. The maritime industry is surely one of America's clearest examples of what the Europeans call "lemon socialism."

Why, you might wonder, is the American taxpayer asked to shoulder such a burden? The putative answer is what it often is in such cases: national security. The United States may have the greatest navy in the world, but the Pentagon fears it may not have enough shipping capacity should a major war break out—and I mean the old-fashioned kind of war that requires armadas of supply ships. Yes, Virginia, we may live in an age of electronic warfare, but the U.S. Navy is afraid that it doesn't have enough frigates. The solution? Keep the American flag flying over the decks of privately-owned merchant vessels so the Navy can commandeer them in time of need.

Okay, let's accept that. After all, who are we economists to question the national security judgments of the Pentagon? So let's imagine a war massive enough to exceed the supply capabilities of the entire U.S. Navy and Air Force, and yet proceeding at such a leisurely pace that commercial ships can be refitted for military use in time. (The 2003 Iraq War was apparently *not* such a war.) Nonetheless, there must be *some* limit on the number of ships we need to hold in reserve for this purpose. At a large interagency meeting on the question of maritime subsidies in June 1993, I suggested what I thought was an unobjectionable principle: The Pentagon's own estimate of its maximal requirement ought to be the upper limit on the number of vessels we even think about subsidizing. Surely everyone could agree on that.

Well, not quite everyone. The man from what I came to call the "Department of the Transportation Lobby" reacted with horror. No, we need to maintain subsidies for at least 92 ships, not just for the 58 that the Pentagon says it might require in time of war.[5] And besides, Senator Shipping would be greatly distressed by the loss of jobs in his state — as he has already made clear to the President. You can probably guess how this debate turned out.

. . . AS IT SHOULD AND MUST

The differences between good economics and good politics are basic, profound, and profoundly frustrating for an economic adviser. Formulating intelligent social policies that take proper account of the myriad of relevant factors is challenging enough in this complex world, where social welfare functions are a good deal more complicated than the beloved $U(C_1, C_2, \ldots)$ of our theoretical models. Now, layer on top of all that: short political time horizons, the frenzied pace of decisionmaking, the need to generate ideas with superficial sound appeal, and the maddening intricacies of legislative scheduling. Then you really have a tough problem.

But those are the rules of the game. Those seemingly-extraneous political considerations are not really extraneous at all—because all significant policy decisions are and must be at bedrock political.[6] Remember that the word *demo*cracy means rule by the *people*, not by the technocrats. And you can be sure that politicians internalize the beliefs and aspirations of ordinary citizens better than technocrats do. If you rely on technicians to take the case to the public, you are likely to be sorely disappointed.

Furthermore, the political system in a country like the United States is afflicted by a powerful form of inertia analogous to what economists model as *fixed costs of decisionmaking*. As we know, such fixed costs lead to what Avner Bar-Ilan and I [1992] once called "the optimality of usually doing nothing." Borrowing terms from inventory theory, the effects of some actual policy are allowed to drift between some boundaries S and s until some major shock (or an accumulation of little shocks) pushes it out of this range. Then policy is adjusted by a comparatively large amount.

In fact, it usually takes a force stronger than pure reason to break the bounds of political inertia. One ingredient is the role of slogans, which academics view with disdain, if not indeed contempt. In America's heavily checked and balanced system of government, considerable political energy is required to get anything meaningful accomplished. You must somehow rouse the sleeping electorate and mobilize the relevant interest groups, as President Bush tried (unsuccessfully) to do with Social Security reform. In such campaigns — and they really are campaigns—slogans and symbols are more effective than learned dissertations, for mass politics displays little tolerance for complexity. So Darwinian selection breeds elected officials who care more about what *sounds* good than about what *is* good.

The desire to balance the federal budget is an excellent case in point. On strictly economic grounds, there is nothing special about a current budget deficit of exactly zero. The government's accounting constructs are arbitrary and, in places, odd. The economic effects of, say, a $28 billion deficit, a balanced budget, or a $28 billion surplus are virtually indistinguishable in our gigantic economy. Indeed, changes in accounting conventions can easily change one into the other. Furthermore, economists have argued for years over using more complicated budget concepts such as capital budgeting, generational accounts, or even present-value budget constraints.

Now let's imbibe a dose of reality. Voters can relate to the number zero in a way they cannot relate to, say, the number 28. Budget balance strikes them as a reasonable and comprehensible target. So, during the Clinton years in Washington, this intrinsically unimportant symbol was immensely valuable in bringing the deficit monster to heel. I doubt that much political support could have been mustered for any of the more abstract goals that economists might (and did) conjure up. Just compare the political allure of "balance the budget" to that of "stabilize the debt-to-GDP ratio."

Next, take those short time horizons. Politicians are surely guilty of myopic concentration on the here and now. But economists are often equally guilty of *telescopic* concentration on the distant future. Our analysis is wont to focus doggedly on the long-run consequences of a policy action, to the exclusion of many of the transitional problems that loom so large in the lives of ordinary people. Will I lose my job to foreign competition if NAFTA is approved? Will tax reform reduce the value of my home? Will my cable or telephone service suffer as the telecommunications industries adjust to deregulation?

No, the nation does not hold elections every Tuesday, and making policy as if it does courts *economic* disaster. But, as Keynes wryly pointed out, in the long run we are all dead. Neither voters nor politicians are foolish to worry about what may happen in the next one or two or five years. Policies that ignore such crucial realities do not occupy a higher moral or intellectual plane. Rather, they court *political* disaster.

Modern economics has developed a second blind spot: distributional consequences. When contemplating changes in, say, tax, trade, or regulatory policies, economists generally think first — and often last — about questions of efficiency. Will the policy make our market system function more or less smoothly? Is it a cost-effective way to achieve the stated goal?

These are fine questions — and highly relevant, too. By assigning them far too little weight, politicians regularly squander the national treasure. But economic efficiency is not uppermost in the minds of the citizenry, nor therefore of their elected representatives. John and Jane Q. Public want to know who gets the gain and who gets the pain. They want to hear reasons why the losers should be asked to sacrifice for the good of the winners — especially if they are among the losers. Some of those answers may be deemed acceptable; people are not always selfish. But others will not be. These are legitimate questions, and economists who refuse to address them are not contributing to better economic policy. They are contributing to their own irrelevance. Our precious Pareto criterion does not provide useful answers because, as we all know, compensation is virtually never handed out in practice.

Here's a pertinent example. In selling agreements that expand the realm of free trade, politicians understand that they must address fears of job loss and community disruption. Economists may assure you that the new high-wage jobs created by enhanced opportunities to export to Mexico will outweigh the low-wage jobs lost to Mexican competition. And we are right. But the poor folks who lose their low-wage jobs in El Paso will not secure the new high-wage jobs in San Jose. Why should these unfortunate souls be asked to pay the price? The case for free trade is not airtight until something is done to compensate its victims — something real, not something theoretical.

While the analytical aspects of the calculus of pain and gain involve numerous difficult technical issues, they at least fall squarely within the realm of mainstream economic analysis. But when it comes to actually deciding who *should* reap the benefits and who *should* pay the bills, technicians must yield the floor to politicians. It is not for economists to say whether one group of people should be favored over another. It is for elected politicians.

COMPROMISE, NOT RIGHT VERSUS WRONG

America's vaunted system of checks and balances was *designed* to be frustrating; Madison & Co. intended it that way. The United States is, in this respect, quite different from many parliamentary democracies. No president of the United States ever has the kind of control that, say, a British prime minister with a working majority has. Even Lyndon Johnson, whose landslide victory in 1964 swept waves of Democrats into both houses of Congress, had to beg, cajole, and threaten the Congressional barons. Even Roosevelt was thwarted by, among others, the Supreme Court.

Compromise is often said to be the essence of politics, and this is nowhere truer than in the United States. Major policy initiatives like comprehensive health care, tax, or Social Security reform almost certainly require broad, bipartisan support. That means coalition building, vote trading, logrolling, difference splitting — and compromise, compromise, compromise. The policies that emerge from such political horse trading are unlikely to follow the neat contours designed by economic technicians. More likely, they will be ungainly creatures whose central organizing principles are hard to fathom, if indeed they exist at all. It's a bit like attaching the head of a cow and the tail of a pig to the body of a camel. But technicians must learn to live with such homely creations, even if they never grow to love them.

I still remember my first reaction (other than relief) to passage of Clinton's five-year deficit reduction package in August 1993. The proposal that the administration had released in February was already — from my economist's point of view — marred by numerous political compromises. Some of them made for less-than-glorious policy. And as the plan wended its way through the House, the Senate, and several conference committees, things got steadily worse. The painstakingly-designed BTU tax, which made real sense economically,[7] was replaced by a hike in the gasoline tax so puny that it was hardly worth the political bloodletting it would provoke. The congressional barons made a hash out of many of the President's so-called "investments." When the reconciliation bill finally passed, I could not generate much enthusiasm for the final product. Was this what we had all worked so hard for?

But I soon developed a much more sanguine view of what had been achieved. We had, after all, taken a big bite out of the deficit apple — a nagging problem that had plagued our economy for more than a decade. While doing so, we had simultaneously made the tax system more progressive, and greatly expanded both the Earned Income Tax Credit for the working poor and the Head Start program for children at risk. We had also initiated what is now called Americorps, starting it on a scale grander than ever achieved by the Peace Corps. And there was lots more. All in all, not bad for a half-year's work in the American system of government. If the final product left a few policy wonks feeling frustrated, that was a trivial price to pay. Real-world policymaking is all about satisficing, not maximizing. The accomplishments of government should always be graded on the curve.

HIGH POLITICS VERSUS LOW POLITICS

Policy without politics is neither feasible nor desirable. But politics comes in various shapes and sizes. The trick is to emphasize what I'll call the "high politics"—the mediation of competing claims and ideas, and deemphasize the "low politics" — politics as sporting event. Unfortunately, America has not been doing a very good job of this for some years now.

High politics is what we were all taught in civics classes. It is the politics of Hamilton vs. Jefferson, of Lincoln vs. Douglas, of Roosevelt vs. Hoover. High politics is about clashes between competing philosophies and visions of government. It is about how the champions of alternative policies duke it out in the public arena. The combat may be rough and tumble, but the focus is squarely on the ideas and the policies.

But politicians are neither purists nor saints. So political battles, like political motives, are apt to be less than pristine; political debates less than lofty. Message, parliamentary tactics, and raw political power may play larger roles than expertise and evidence. Deals are struck. Logs are rolled. Compromises are forged. The whole process resembles a heavyweight boxing match more than the Oxford-Cambridge Debating Society.

Even when politics sticks to the high road, the economic merits of an issue normally take a back seat to the politics. Sometimes they are not even invited along for the ride. But that's a good deal better than when low politics holds sway. Then the economic equities get treated like road kill.

If high politics is like boxing, low politics is more like mud wrestling. The contest among ideas degenerates into battles for partisan or individual advantage. Argument and debate give way to invective and spin. Competing philosophies are smothered by political gamesmanship. Legitimate mediation of competing claims turns into an unseemly squabble over who gets to feast at the public trough. It is not a pretty sight.

Unfortunately, gamesmanship has been elevated to absurd heights in contemporary Washington, where politics is second only to professional football as the town's favorite sport. For years now, political clashes have often not been about ideas at all, nor even about policy. They are simply about winning and losing — winning and losing *what* is considered less important. Here's an example of this curious contact sport that I witnessed from a front row seat 13 years ago.

In seeking ways to combat the President's 1993 economic proposals, Congressional Republicans quickly coalesced around an amazingly simple strategy: just say no — to everything. Their intent was not to reshape the policies in ways that Republicans found more congenial, but to inflict maximum political harm on the newly-elected president.

So Senate Minority Leader Bob Dole successfully used a filibuster to block a proposed economic stimulus package. Now, reasonable people could have argued that the 1993 economy did not require any stimulus; the magnificent wisdom of hindsight certainly supports that position, because economic growth accelerated after 1993. And the particular bill that the Clinton administration laid on the table was clumsily designed. But the actual debate over the stimulus was not fought on these grounds. The Republicans did not argue that stimulus was inappropriate at the time because the economy was strong; nor did they try to refashion the package in ways that were more to their liking. In fact, there wasn't any real policy debate at all, just a display of obstinacy. Dole's objective was simple: to hang a defeat around the new president's neck — and he did. The same strategy was subsequently used, on a grander scale and with even greater political success, to kill President Clinton's health insurance proposals. There was no alternative Republican-backed proposal.

While these two examples cast the Republicans as the villains, Democrats play this game, too. Indeed, in 2005, they successfully applied the "just say no" strategy to President Bush's proposals for Social Security reform. There was no Democratic counterproposal. And, of course, the nay-saying game was not invented in 1993.

Low politics manifests itself in other unattractive ways as well—such as name calling, personal attacks, and scandal mongering. These tawdry aspects of contemporary political sport are nothing new. After all, Jefferson and Hamilton were called names that cannot be repeated in public — even now, in our coarser society. But they seem to be growing more omnipresent — and more virulent. Washington observers who are far more experienced than I report that the level of nastiness has been rising like the tide for more than a decade. The main effect of all this mudslinging is to make more and more viewers want to change the channel to something more genteel — say, the World Wrestling Federation, for example.

If you want to know why more and more of our citizens are tuning politics out, ask yourself this simple marketing question. What do you think would happen to the national appetite for hamburgers if McDonald's and Burger King constantly bombarded us with ads condemning the other's vile products rather than extolling the virtues of their own?

But this is all surface stuff. The truly deplorable aspects of low politics hardly ever make it to the TV screen and, indeed, are barely visible to the public at large. What happens in the shadows is known only to the insiders. Earmarked spending is the current manifestation, and it has grown like topsy in recent years — leading to such budgetary wonders as the $225 million bridge to an Alaskan island with just 50 inhabitants.[8] But precisely the same thing goes on with "members' provisions" in the tax code.

One of my all-time favorite examples was unearthed by Jacob Weisberg [1986], then of *The New Republic,* while Congress was working on tax reform in 1986 — which, by the way, was a truly stellar piece of legislation. On page 651 of a monstrously long draft tax bill, a list of exceptions to the general crackdown on abuse of municipal bonds contained a cryptic reference to "an area of a city described in paragraph (4)(C)." If you turned to that paragraph, you did not learn the city's name, but you did find out that it had more than 2.5 million inhabitants and an American League baseball team. Hmmm. That leaves New York (the Yankees) and Chicago (the White Sox). More information was waiting in section 145(d)(3), if you could find it. It located the city in a state whose new constitution took effect on July 1, 1971. Bingo! If you were in the know, that identified the state as Illinois and the city as Chicago. What a surprise — Congressman Dan Rostenkowski of Chicago then chaired the House Ways and Means Committee. Turning back to page 651, you found that the law exempted redevelopment projects approved before July 1, 1986 in a neighborhood which the City Council declared to be blighted on November 14, 1975. Now, how many projects do you think fit that description?

I said that outrages like this are virtually invisible to the average man and woman on the street. In the small, that is true. Few citizens are aware of the bizarre special-interest favors that Congress routinely bestows. But, in the large, people do get the message. Some scams are unmasked by intrepid journalists; others get revealed by clumsiness or accident; a few come to light because of sheer chutzpah. As a result, people come to believe that unseemly shenanigans take place on a daily basis. The public may see only the tip of the iceberg, but that tip is big enough to convince them that the governmental deck is stacked against them. And it is more than enough to turn people off on politics.

IT TAKES TWO TO TANGO

Economists regularly complain that crass politics ruins good economic policy. Political types frequently roll their eyes at the naivete of economic technicians. The point of this lecture is to emphasize that both have valid points. Politics has its seamy side, to be sure. But it is not some extraneous fluff that interferes with rational policymaking; it is and must be the essence of democratic decision-making. And this is especially true in the peculiarly inertial American system of government, where there is simply no possibility of making headway on any public policy issue unless the political force is with you.

So what's a poor economic adviser to do? As usual, the principle of *comparative advantage* points to a good place to start. Economists excel at the dispassionate, disinterested analysis that, more often than not, leads to the right *conceptual* answer. It is not that we economic policy wonks hold wrong-headed views on these matters; more often than not, we have it right. There really is no election on most Tuesdays. Evidence does beat hunches as a basis for policy formulation. The substantive merits of a policy will ultimately matter more to the public than the slogans that helped sell it. Haste does frequently make waste. The broad public interest really is more important than narrow special interests.

But the realities of politics do not permit such tidiness of thought. Considerations such as those just mentioned may be of limited interest in the political world. Splendid logical arguments are unlikely to move voters. Technical analysis certainly will not persuade interest groups. Empirical evidence will not push a bill through Congress. Economists cannot do *any* of the things that are necessary to move legislation. The politicals at least have a shot.

So let me sum up some of the key lessons we economists can learn from the politicals. First, doing policy without politics is an illusion in a democracy; it is neither feasible nor desirable. Second, since gimmicks and slogans are vehicles for breaking through the overwhelming inertia of America's system of government, we should not turn up our noses at them; and we should remember the KISS principle ("Keep it simple, stupid.") Third, it is a mistake to ignore or belittle transition costs. Fourth, it is another mistake to ignore or belittle distributional consequences. Fifth, whether we like it or not, the sequencing of issues in time really does matter.

Given all this, how can economists play a greater and more constructive role in the policy process? My short answer, which sounds glib but is actually deep, is that good economic policy is best achieved through a series of carefully-arranged marriages between cerebral economists and worldly politicos. I use the term "marriage" here advisedly. I once believed that the ideal way to formulate economic policy would be for politicians to give their economic advisers the social welfare function that is to be maximized, and the political constraints on that maximization, and then let 'em rip. Appending the political constraints to the conventional economic constraints would put us economists back on the familiar terrain of constrained optimization.

But I have learned over the years that this vision is naïve. The problem is that, in the slightly-crazy world of politics, the political constraints and even the welfare function are apt to change unpredictably over time. At any moment in time, it may be possible, at least conceptually, to maximize social welfare subject to both political and economic constraints. But the political constraints may change abruptly—as, for example, when one of those "irrelevant alternatives" gets resolved or changes shape. And even the objective function may change as one constituency is paid off while another suddenly becomes deserving. There is no way that economists can forecast these twists and turns in the policy process, and therefore there is no way to take them into account in the original maximization.[9] The "optimization" would have to be done over and over again in real time.

That thought is what brings me to the marriage metaphor. Husbands and wives are, of course, engaged in a never-ending set of exchanges of information, negotiations, and compromises over issues that could never have been anticipated in advance. A good marriage is characterized by a process of constant give and take, and constant adaptation to ever-changing circumstances, always leavened by good will. Similarly, to get better economic policy, economists and political types must be joined together in a lasting union—not in a series of one-night stands. They must interact regularly, with each coming to understand the other's comparative advantage. To be sure, these will be old-fashioned arranged marriages founded on convenience, not romances based on love. But if we can increase the frequency and durability of such unions, and limit divorces, Stigler will ultimately be proven wrong.

NOTES

The views expressed here have developed over many years, during which I have learned from many people. I am indebted to Eytan Sheshinski for helpful comments on this draft and to Princeton's Center for Economic Policy Studies for financial support.

1. These and other examples are discussed in Blinder [2000].
2. There are, of course, theoretical exceptions. There always are.
3. See Blinder [1987], Chapter 1.
4. See Stockman [1986].
5. The numbers are entirely fictitious. They were a national security secret at the time, and I don't remember them, anyway.
6. However, in Blinder [1997], I have questioned whether we make too many public policy decisions on political, rather than technocratic, grounds.
7. A carbon tax made even better sense, but that idea was still-born because it would have hit some identifiable constituencies (e.g., West Virginia) extraordinarily hard.
8. One wag pointed out that the government could have purchased 50 helicopters for less money.
9. I am claiming that this is a case of Knightian uncertainty rather than risk. No one knows the probabilities.

REFERENCES

Bar-Ilan, Avner, and Blinder, Alan S. Consumer Durables: Evidence on the Optimality of Usually Doing Nothing, *Journal of Money, Credit, and Banking*, Vol. 24, No. 2 (May 1992), 258-272.

Blinder, Alan S. *Hard Heads Soft Hearts.* Boston: Addison Wesley, 1987.

____________**.** Is Government Too Political?, *Foreign Affairs*, November/December 1997, 115-126.

____________**.** How the Economy Came to Resemble the Model, *Business Economics*, January 2000, 16-25.

Stockman, David A. *The Triumph of Politics: How the Reagan Revolution Failed.* New York: Harper & Row, 1986.

Stigler, George J. Do Economists Matter?, *Southern Economic Journal,* January 1976.

Weisberg, Jacob. Overnight Statesman: Dan Rostenkowski's New Look, *The New Republic*, March 24, 1986.