Will the twain ever meet?
Bridging the gap between economics and politics

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I've looked at life from both sides now...
— Joni Mitchell

Becky Blank was a friend to all of us, and it is an honor for me to participate in honoring her. My subject for this volume was not chosen randomly. Rather, it reflects and is a tribute to Becky's life and career. She was a successful academic economist (at Princeton and Northwestern), an indefatigable (and again successful) academic administrator (most notably, as chancellor of the gigantic University of Wisconsin—Madison for almost nine years), and an extraordinary public servant—first on the Council of Economic Advisers under President Bill Clinton, and then at the Commerce Department under President Barack Obama. In the latter role, she rose to become Acting Secretary of Commerce for about a year.

All these achievements would be a remarkable legacy for someone who lived well into their 80s. But as we all know, Becky's life was tragically cut short, much too young, just before she was to become the president of Northwestern.

Beyond her impressive professional achievements, Becky was a wonderful wife to Hanns, mother to Emily, and a dear friend to so many of us gathered here today. A truly fine person. She is sorely missed.

I write this essay as a member of a minority group of which Becky was a prominent member, too: economists who have ventured into the world of real-life policymaking, a place

[1] This paper expands upon my Moynihan Prize lecture, delivered in Washington, DC, on October 25, 2023 and forthcoming in The ANNALS. Some paragraphs match that lecture, but this paper is far longer and contains much material not found in the Moynihan lecture.

where politics reigns supreme.[2] Experiences like that, which Becky had in abundance, make you look at life from both sides, the economic and the political. The two views are starkly different.

Let me start by dispelling a myth. Perhaps because economists are frequently trotted out in the media to support or oppose policies, perhaps because we have a Council of *Economic* Advisers right in the White House, perhaps because the powerful Federal Reserve is dominated by economists, many people believe that economists have enormous influence on public policy. The truth is that, outside of monetary policy, we don't.[3]

Over a half century ago, liberal economist Arthur Okun, reflecting on his years advising Presidents Kennedy and Johnson, wrote that "on a number of issues, a bipartisan majority of the profession would unite on the opposite side from a bipartisan majority of the Congress." (Okun 1970, 1). This statement would remain true today if one could muster a bipartisan majority in Congress on *anything*. Five years later, conservative economist George Stigler (1976, 351) wrote that "economists exert a minor and scarcely detectable influence on the societies in which they live." Stigler was no doubt exaggerating to make his point. But he had a point. I don't know, but this lack of influence of economists on policy may have been the only thing on which Okun and Stigler ever agreed.

The situation has not changed much since. About five years ago, I published a book (Blinder 2018) in which I argued that economic policymaking is dominated by *The Lamppost Theory*: that

[2] Lest there be any misunderstanding, I exclude from the rubric "politics reigns supreme" my service on the Federal Reserve Board. The Fed is remarkably apolitical.

[3] To be sure, the Congressional Budget Office is an influential institution that is almost always led by an economist and has many economists on its staff. Its scorekeeping function, which makes liberal use of technical economics, does shape the details of many policies in important ways. However, the CBO does not make policy *decisions*, and it virtually never *initiates* new policy proposals. It tries to be scrupulously neutral.

politicians use economists the way a drunk uses a lamppost—for *support*, not for *illumination*. Elaborating, I argued that it's as if economists and politicos—by which I mean not only elected politicians, but their large supporting cast of advisers and message meisters—hail from different civilizations. They speak different languages. They view the world differently. They employ different criteria for success. They have dramatically different time horizons. They even deploy starkly different forms of logic.

Before I ventured into the real world of policymaking, I viewed "political logic" as an oxymoron. Isn't politics fundamentally illogical, sometimes even nutty? Many economists still feel that way. There's only one logic, handed down from Aristotle, right? No, wrong. Let me illustrate why with a simple arithmetical example which seems trivial but actually illustrates a problem that is both ubiquitous and deep.

Imagine a policy, perhaps a tax break, that would hand $1 million in gains to each of ten people, but would cost 20 million people $1 apiece. *Economic* logic sees this as an obviously bad policy: The gains of $10 million are only half the losses of $20 million. To proceed with it, there would have to be some powerful *noneconomic* reason.

Those same costs and benefits, however, look quite different when viewed through the lens of *political* logic. The 20 million losers will not notice their $1 losses. And even if they did, those puny losses are not nearly large enough to move them to political action—if indeed they correctly connect them to the policy change, which is unlikely. The ten winners of a million dollars, by contrast, will certainly take note of their newfound largesse, understand where it came from, and be grateful to the politicians who handed them the gift—which, by the way, they probably lobbied for. The *political* gains—in electoral support, campaign contributions, etc.—dwarf the *political* losses, which are probably zero.

The numbers in this simple arithmetical example may make the conclusion seem trivial. But it's not. In fact, the example illustrates why so much goes astray—economically, not politically—in tax policy, trade policy, regulatory matters, antitrust enforcement, and a host of other areas. Incidentally, it would not help much if politicos understood economics better, much as we economists would welcome that. Political arithmetic and economic arithmetic just often point in opposite directions. It's a harsh fact of life.

Can we bring the two civilizations closer together? The politicos

Politicos and economists will never look, think, and speak alike. If you want to understand why, ask Charles Darwin. But can we at least build a bridge, however rickety, over the large chasm? Can we get politicos to devote a bit more attention to the economic merits of alternative policies? Can we get economists to understand the political world better, and maybe even to appreciate political constraints? I hope we can.

But if this is to happen, economists will have to do more of the changing—for a simple reason. Apart from monetary policy and a few other isolated places, elected politicians make the major (and many of the minor) decisions—as they should in a democracy. I'll come back to the economists shortly, and at greater length. But let me begin with a few suggestions for the politicos.

Longer time horizons: Start with the notorious matter of short time horizons. It is a commonplace that politicians often cannot see past the next election. The truth is far worse.

The political pros who advise politicians often cannot see past the next public opinion poll, maybe not even past the next tweet. Their natural time horizons extend only until that evening's news broadcasts, if indeed that long. They often act as if there is an election every Tuesday.

But getting politicians to focus on "the long run" may not be as hopeless as it seems because it does not require them to peer all that far into the future. It certainly does not ask them to set electoral politics aside and adopt the excruciatingly long time horizons that often typify academic thinking. (More on that later.) That time frame is far too leisurely for politics.

So suspend disbelief for a moment, and suppose the extreme myopia that pervades modern American politics is actually a tactical error. Suppose behaving as if there is an election every Tuesday is not as smart politically as many politicos seem to believe—or at least act. Then sound policy has at least a glimmer of hope. After all, politicians are among the most adaptable of God's creatures. If they can be persuaded that current political fashions are counterproductive, they may change their ways—not due to a sudden bust of idealism, but because they want to win elections.

To make this thought concrete, let's focus on the political logic of a newly-elected president who, regardless of what the Framers imagined, generally takes the lead in proposing and promoting new policies. One fortunate fact is that the president's four-year term of office is long enough for most (not all) economic policies to have had their major effects—even in many cases to have reached, or nearly reached, their steady-state equilibrium effects—during the term. That means that sound economic policies enacted during a president's first or second years in office are highly likely to have shown major benefits before the next presidential election. Within that window, good economics can also be good politics—a lesson politicos ought to be able to learn.

Naturally, of course, a president's political time frame shortens as his term proceeds. But that is where the vagaries of America's crazy electoral calendar come to the rescue. Once the 18-month mark of a new presidency has passed, Washington's attention turns to the midterm elections. Then, more often than not, electoral losses in the midterms make it hard for the president's party to push through *any* major policy initiatives over the next two years. Furthermore, once the midterms are behind them, political minds turn away from policy and toward the next presidential election. *What will we run on?* Put all that together, and you see that the policy phase of a new presidency rarely lasts more than 18 months. That's bad news. But the silver lining is that, during that period, economic and political time horizons dovetail nicely.

Gain before pain: For policies whose natural time frame is much longer than four years, perhaps stretching over generations like Social Security and Medicare, a different approach to the time horizon problem holds some promise. The central idea is to structure changes in very long-term policies so that much of the political gain comes first and most of the political pain comes later—hopefully, much later. This "flip the script" approach can't work everywhere. Its potential applications are limited. But some of them are hugely important. History provides a wonderfully clear example.

When Ronald Reagan became president in 1981, the Social Security Trust Fund was running low. Disaster, in the form of sharp cuts in retirement benefits, was looming close enough to concentrate even short-sighted political minds. So the president appointed a bipartisan commission, headed by conservative economist Alan Greenspan (yes, the same man who later led the Federal Reserve), to make recommendations. It wasn't an easy task because any policy changes that improved Social Security's finances were bound to inflict political pain. Just think about the politics of trimming benefits or raising the payroll tax. But the laws of arithmetic, even if painful, have a way of commanding center stage.

Sure enough, when the Greenspan Commission issued its report in January 1983, its recommendations touched the vaunted "third rail" of American politics by cutting Social Security benefits (for example, by making some of them taxable) *and* raising taxes (even though Reagan was an avowed tax cutter). Thus two political sacred cows were designated for slaughter at once. Perhaps even tougher politically, the ensuing congressional debate went further and raised the normal retirement age from sixty-five to sixty-seven years. Lots of political poison, it would seem. Yet the recommendations sailed through Congress with amazingly little resistance.[4]

What was behind this miracle? Did politicians' short time horizons suddenly grow to match economists' long ones? No. The secret sauce was deferring the pain. The payroll tax increases were small and gradual, phased in over seven years. The older retirement age came in much more slowly. *Nothing* was to change until the year 2000—which was then seventeen years away! Then the increase from age sixty-five to age sixty-seven would phase in gradually over the following twenty-two years. (Yes, we just finished the phase-in!) You don't find many politicos worrying much about what's going to happen seventeen to thirty-nine years in the

[4] The votes in favor were 243-102 in the House and 58-14 in the Senate. As your arithmetic is now telling you, quite a few members did not vote.

future. Yet that was fast enough to make the actuarial calculations work and enable politicians to claim they had "saved" Social Security.

Was that experience unique and thus not replicable? No, though it can't be done everywhere. With a modicum of good will (which, unfortunately, is in short supply today) a similar "trick" could be done with Social Security or Medicare now. Politicians could once again claim credit for "saving" Social Security and Medicare while deferring the pain for later. In the same vein, although with very different details, long-run problems like climate change or the skyrocketing national debt could be dealt with. It's not imperative to fix these problems in the next year or two.

Linkage: Short time horizons are not the only reason why good politics so often lead to bad economics. Another, which is well illustrated by my $1 million-$1 example, is that politicians often find it in their best interest to serve narrow constituencies rather than the broad public interest. Just think, for example, of some egregious tax loophole, or some "bridge to nowhere," or an instance of regulatory capture, and ask yourself how it happened. None of these were random accidents. They are all quintessential examples of places where economic logic and political logic collided, and political logic prevailed.

Can the tendency to serve narrow special interests rather than the broad public interest be overcome? Not likely. But it might be mitigated a bit. One class of examples, which I call *linkage*, is illustrated by pay-as-you-go ("PAYGO") budgeting.

PAYGO first entered the federal budget process as part of the 1990 budget agreement between President George H.W. Bush and the Democratically-controlled congress. That Mr. Bush reneged on his "no new taxes" pledge grabbed all the headlines at the time—and cost him dearly politically. But the sleeper in the deal was PAYGO, which means balancing the budget *at the margin*. Under PAYGO, if members of Congress propose to increase a spending program (thereby creating political *gain*), they must pair it with either equal spending cuts elsewhere or enough new tax revenue to pay for it (in either case, creating political *pain*).

Notice the genius in this simple idea: The linkage naturally broadens the constituencies affected by a policy change. Not necessarily to the whole society, but in thinking through the politics of a budgetary proposal, PAYGO forced senators and representatives to consider the political pain imposed on losers alongside the political gain offered to winners. With the political playing field thus made far more level, many potential spending increases and tax loopholes suddenly looked a lot less attractive than they did prior to PAYGO discipline. Political "free lunches" were no longer free.

PAYGO lasted through the reminder of Bush's term and the eight years of Bill Clinton's presidency. During those ten years, the federal budget was transformed from a large deficit into a sizable surplus—something no one in 1990 dreamed possible. I do not think this was a coincidence. No, I am not claiming that PAYGO was the sole reason for the budgetary miracle, but it certainly played an important role. And when Congress abolished it under President George W. Bush in 2002 to clear the way for large tax cuts, the budget discipline imposed by PAYGO was lost. The virtues of the father were thus not visited upon the son. The Bush II administration proceeded not only to cut taxes, but also to wage wars, institute Medicare Part D, and more without "paying for" any of it. The large budget surplus left by Bill Clinton quickly morphed into a large deficit.

Earmarks: My next suggestion for politicos may make my fellow economists think I have gone over to the dark side. In 2011, after several years of scandals and the ascendancy of the tight-budget Tea Party, Congress imposed on itself a moratorium on earmarks—often known derisively as "pork barrel" spending. At the time, I, like most economists and many other citizens, thought this was a fine idea—and long overdue. If you were looking for the proverbial "waste, fraud, and abuse" in the federal budget, earmarks were the place to start.

Some of the earmark stories were outrageous enough to be funny. For example, the so-called "bridge to nowhere" (the Gravina Island Bridge in Alaska) was proposed in 2005 to replace a ferry that connected the town of Ketchikan with Gravina Island, which had about 50 residents. The projected price tag of about $400 million struck many people as a bit steep to make travel more convenient for 50 people. But it struck Alaska's lone congressman, Don Young, who happened to chair the House Transportation Committee at the time, as entirely reasonable. Although the bridge was never built, the "Bridge to Nowhere" became a symbol of the lengths to which earmarks could go.

Another marvelous story came from the Tax Reform Act of 1986, which I'd nominate as the best tax bill ever to pass Congress.[5] But it had a few blemishes. One was clearly inserted by House Ways and Means Committee Chair Dan Rostenkowski. In a list of exceptions to the general crackdown on abuse of municipal bonds on page 651 of the huge bill, you find (if you read carefully) references to "a city described in paragraph (4)(C)." Search that paragraph out, and you learn that the still-unnamed city is identified as having an America League Baseball

[5] This story was unearthed by journalist Jacob Weisberg (1986). I tell it in more detail in my 1987 book, *Hard Heads, Soft Hearts*, pp. 178–179.

team and a population exceeding 2.5 million, narrowing the field to New York and Chicago. But there was one final clue, for the cognoscenti only, in section 145(d)(3): the city in question is in a state that adopted a new constitution effective July 1, 1971. Yes, it was Illinois, and the city was Chicago—Rostenkowski's home town. Wow! Do you think the bill's writers were trying to hide it?

Examples like these are egregious violations of almost every principle of good government you can think of. They give earmarks a bad name. Yet there is another side to the story. The seemingly reasonable attitude that decries earmarks as wastes of taxpayer money overlooks something important: Earmarks were often the lubricant that greased the wheels of an otherwise creaky congress, helping to seal complicated deals, especially budget deals, that might not otherwise have been made. As the *New York Times* put it years later, when earmarks made a comeback, "Often derided as pork and regarded as an unseemly and even corrupt practice on Capitol Hill, earmarks are also a tool of consensus-building in Congress, giving lawmakers across the political spectrum a personal interest in cutting deals to fund the government."[6]

Earmarks provide yet another great example of the sharp divergence between economic and political logic. It would be an exaggeration to say that these unseemly provisions, typically buried in large bills, often in the dark of night, made the trains run on time. But at least they helped some of the trains leave the station. Yes, most earmarks were and remain wasteful spending *economically.* But sometimes they were part of the secret sauce that sealed the deal *politically*. When they were gone, they were missed.

[6] Broadwater *et al*., 2022.

When Congress went back to allowing earmarks in 2022, the *Times* reported that, "Stuffed inside the sprawling $1.5 trillion government spending bill enacted in March was the first batch of earmarks in more than a decade… Republicans and Democrats alike relished the opportunity, packing 4,962 earmarks totaling just over $9 billion in the legislation that President Biden signed into law."[7] You may be thinking that $9 billion is a lot of money. Passing almost 5,000 special interest provisions is also a lot. But set against the $1.5 *trillion* spending bill, it was pocket change. Think of it as a small political "tax" of 0.6%—part of the price we pay to keep representative democracy functioning.

A more recent example arose in May 2023, when President Biden and House Speaker Kevin McCarthy (R-CA) negotiated a contentious budget agreement to avoid defaulting on the national debt. It was a tough and highly partisan negotiation. Every vote counted. But it somehow included—at the last minute—a surprise provision approving permitting requests for the multi-billion dollar Mountain Valley Pipeline that would carry natural gas from West Virginia across nearly 1,000 streams and wetlands to users in Virginia. Environmentalists, civil rights activists, and many Democratic state lawmakers had long opposed the plan. But its last-minute inclusion, on a Sunday night, secured the much-needed vote of Senator Joe Manchin (D-WV).[8] What some people viewed as pork had greased the wheels.

A Bigger Role for Technocrats?: My last suggestion for political change may be a bit too pie-in-the-sky. Judge for yourself. Every society has a dividing line, sometimes porous, between political decisionmaking and technocratic decisionmaking. No one (I hope!) would want

[7] Ibid.
[8] Tankersley and Rappeport (2023)

politicians making the engineering decisions at Cape Canaveral. On the other side, no one (I hope!) thinks technocrats should be deciding on abortion rights or capital punishment. The questions are always: Where does (and where should) society draw the line between political and technocratic decisionmaking? The more a decision rests on technical considerations, the more it belongs in the realm of technocracy. The more a decision involves value judgments, the more it belongs in the realm of politics.

In my view, which I expressed long ago (Blinder 1997), the United States places too many economic policy decisions—almost all of them, in fact—in the political realm. Moving the line *just a bit* more toward technocracy might be helpful. But it won't happen unless politicians willingly hand over some of their authority to technocrats. And that means that decisions about apportioning pain are far more likely to be assigned to technocrats than decisions about handing out goodies. Politicians will want to keep the latter for themselves.

The independent Federal Reserve is probably the most outstanding, and best-known, example of technocratic economic decisionmaking in the United States. Its decisions on monetary policy and other matters are made by nonpolitical technocrats—without consulting with or seeking approval from politicians. Those decisions get questioned and criticized regularly, but they are almost never viewed as political because they are not.[9]

Yes, the Fed sometimes gets to give out "goodies" in the form of lower interest rates.[10] Politicians would like to take credit for that. But smart politicians understand that it's the central bank, not Congress, that will take the heat whenever interest rates must rise to fight

[9] Full disclosure: I was Vice Chair of the Fed in 1994–1996.
[10] Lower interest rates are not good for everyone. People living on interest income suffer.

inflation. Their respect for the Fed's independence, which is *not* written into the Constitution, derives in part from this knowledge.

The Base Realignment and Closure Commission (BRAC) is another outstanding, though less well-known, example. When the Cold War ended, everyone knew that our military was far too big for the post-Cold-War world. Scores, if not hundreds, of installations had to be downsized or shut down. But there was a big and obvious political problem: Every domestic military base was located in one of the 435 congressional districts, and the local members of Congress could be counted on to object to the attendant loss of jobs and collateral damage to local businesses. The main problem was thus the allocation of economic pain—something no member of Congress relishes. What to do?

Drawing on some past precedents, Congress wisely established the BRAC to decide which bases to close on (hopefully) objective, nonpolitical grounds. Perhaps surprisingly, the BRAC process worked extremely well, and many bases were shuttered all over the country. The independent BRAC commissioners, who were not running for office, took the heat, not the politicians.

There may be a lesson here if Congress ever decides to get serious about reducing the budget deficit, although I must admit that the precedents are not promising. For example, the Simpson-Bowles Commission in 2010 was charged with devising a deficit-reduction plan that both parties could accept. It failed to do so because the 12 members of Congress divided 6-6 along party lines. It is worth mentioning, however, that the six distinguished public members appointed by President Obama (technocrats, sort of) supported the chairmen's plan by a 5-to-1 margin. Hmm. Maybe Simpson-Bowles would have succeeded if all the commissioners had been non-politicians.

Can we bring the two civilizations closer together? The economists

Most economists, I think it fair to say, have little or no interest in getting involved in public policy debates. Those debates, after all, rarely center on the intellectual merits of the case, are often starkly partisan (forcing economists to take sides), and are sometimes downright nasty (you should read my hate mail). That said, this section of the paper is addressed to the minority of economists who *do* want to get involved—a minority group that included, among its best practitioners, Becky Blank.

Efficiency versus fairness: At the risk of being drummed out of the American Economic Association, I start at the most fundamental level. When contemplating changes in, say, tax, trade, or regulatory policies, economists generally think first—and sometimes last—about questions of efficiency. Will the policy make our market system function more smoothly? Will it raise the Gross Domestic Product? Will it minimize deadweight losses? Is it a cost-effective way to achieve the stated goal?

These are all fine questions—and highly relevant to the formulation of sound economic policy. By ignoring them, politicians regularly squander the national treasure. But economic efficiency is not uppermost in the minds of the citizenry, nor therefore of their elected representatives. The voters want to know who gains and who loses. They want to hear reasons why it's *fair* for the losers to be asked to sacrifice for the common good—especially if they may be among the losers. Some of the answers might even be deemed acceptable; people are not always 100% selfish. But others will not be. Such questions are entirely legitimate.

Fairness—an admittedly slippery term—regularly trumps efficiency in the political world, and in the public domain more generally. It's not a close contest. Economists who harp ceaselessly about efficiency, to the near exclusion of distributional equity and perceptions of fairness, look out of touch to both politicians and ordinary citizens—and thereby render themselves irrelevant to the public debate. Politicians, it must be said, often go to the other extreme, which is one reason why economic policy is often so manifestly inefficient. So I am *not* recommending that economists abandon efficiency as a guidepost, only that we leaven our enthusiasm for efficiency with a bit more respect for political sensibilities and, in particular, for perceptions of fairness.

Debates over the tax code, which are hardy perennials in Congress, make a perfect example. Economists have a beautiful theory of optimal taxation, built around minimizing deadweight losses.[11] It's elegant and, at least in principle, could be made operational. But it plays absolutely no role in any actual congressional debate. Zero. Discussions of distribution and fairness, on the other hand, dominate the colloquy. The result is the inefficient, politically-created tax mess that we have.

Similarly, economists who make elaborate efficiency arguments for switching from an income tax to a consumption tax, or who advocate privatizing Social Security, should pause more than they do to consider how changes like that would affect the progressivity of our tax-

[11] The theory originates with Diamond and Mirrlees (1971).

transfer system. (Each would almost certainly reduce it.) The public, and therefore the politicos, will surely think such questions apposite.

Combating climate change offers a rather different sort of example of the same principle. I have often said that 101 out of every 100 economists think the best approach to limiting CO_2 emissions is a carbon tax. On efficiency grounds, it beats the other remedies hands down. But many politicians recoil against taxes—"the T word." And many citizens see a carbon tax (or its variants, such as cap-and-trade) as *unfair* to people who "must" use a lot of energy.

I remember well the ignominious fate of the BTU tax proposal in President Bill Clinton's first budget. It was a smart idea *economically*, but not *politically.* As a member of the Council of Economic Advisers, I watched firsthand as members of Congress eviscerated it. It was, after all, "unfair" to impose high taxes on heavy users of energy like farmers (for fertilizer), coal miners, and aluminum plants. Right? The BTU tax quickly acquired more holes than a Swiss cheese. It became clear to the Clinton team that Congress would not countenance taxing *any* heavy user of fossil fuels. In the end, the proposed BTU tax was replaced by a puny rise in the federal excise tax on gasoline, and even that barely squeaked through Congress.

An alternative approach to slowing down climate change, which is clearly *not* the economists' favorite, is to offer subsidies and tax incentives to private businesses to invest in green technology projects and/or to have the government do so directly. That was the approach President Biden took in the misnamed but comprehensive Inflation Reduction Act. Virtually every economist will tell you that measures like those are grossly inefficient compared to a carbon tax.[12] But unhappily for us, taxes on CO_2 emissions have negligible political support

[12] See, among many other sources, Metcalf (2019).

In the United States.[13] So what are we to do? Withdraw on principle from what is probably *the* existential economic problem facing the human race? Bay at the moon, even though no one is listening?

No. Instead, why not give a nod to political feasibility and, just as we always teach, optimize subject to constraints? In this case, it's *political* constraints. The Inflation Reduction Act promises a sizable reduction in America's contribution to climate change. The world is almost certainly better off with it than without it, even though it has no carbon tax and accomplishes the reduction in carbon emissions inefficiently. (*My god. It's industrial policy!*) Most important of all, however, President Biden was able to push it through Congress, albeit on a straight party line vote. A carbon tax proposal would certainly have failed.

So here's my advice to economists interested in actual—as opposed to theoretical—policymaking. Don't forget about efficiency. It matters. But it's not the be all and end all. We may have to content ourselves with concentrating our efficiency-promoting efforts below the political headline level, where salience drops off quickly. Getting deep in the weeds of a complex policy package to make the details less inefficient may not be glamorous, but it's a worthy endeavor. Call it pursuing the theory of the third or fourth best.

Transition costs: My next major suggestion returns us to the time horizon issue. I emphasized earlier that *political* time horizons are too short for sound economic policy. But *economists'* time horizons are often vastly too long for politics.

Specifically, economists typically focus on the "equilibrium" or "steady state" effects of a policy change. For example: What will happen *eventually* after a change in the tax code or in

[13] They do better in Western Europe, in cap-and-trade form, but are not (yet?) large even there.

trade policy? Don't get me wrong. Questions like those are important and highly pertinent to real-world decisionmaking. We should not ignore them. But comparisons of alternative equilibria are close to irrelevant in the *political* world for a simple reason: People don't live in equilibrium states. Rather, they spend most of their waking days living in one *transition* or another. Yet economists often brush off "transition costs" as unimportant details, not worth of tarrying over. It's a bad habit we should all break.

Consider trade agreements as an example. With some exceptions, trade theory compares one full-employment, steady-state equilibrium with another. (Remember all those workers shifting from one industry to the other?) David Ricardo taught us over 200 years ago that the free-trade equilibrium is better for society as a whole (although not better for every person) than the equilibrium with trade protection. He was right, which is why almost all economists are free traders at heart.

But wait. The process of *adjustment* to the superior free-trade equilibrium may be lengthy and painful, involving reduced incomes for some, devalued assets, decimated communities, and, above all, job losses—which are particularly salient politically. Economists may assure politicians that the new high-wage jobs created by enhanced export opportunities will outweigh the low-wage jobs destroyed by foreign competition, and we regularly do so.[14] That's nice to know. But the folks who lose low-wage jobs in San Antonio will not secure new high-wage jobs in San Francisco. Why should these unfortunates be asked to pay the price? The case for free trade is not airtight until something is done to compensate its victims. And it rarely is.

[14] I made this argument myself many times as a member of Bill Clinton's CEA. Many empirical studies support it. See, for example, Riker (2015).

Economists know all this, of course, but we don't pay it sufficient heed. Instead, we downplay "transition costs" and laud freer trade for its steady state benefits. Politicians, who have to face the voters periodically, do the reverse: They dote on the transition costs and are unimpressed by the steady-state gains—which take a long time to arrive.[15] There is a gigantic attitudinal gap here.

I am not suggesting that economists bridge this gap by turning protectionist. Far from it. Rather, I use the trade example to argue a general point: that economists should spend a lot more time and effort thinking about possibly painful transition costs, and how to mitigate them, rather than focusing hyperopically on steady state effects.

The need to mitigate losses brings up a related point. Improvements in efficiency create surpluses *for society as a whole*, thereby opening up possibilities for compensating losers. But compensation is almost never paid. And even when it is, it is rarely adequate and not always appreciated. For example, trade adjustment assistance has been derided as "burial insurance." Workers want jobs, not government handouts. (More on this below.)

This attitude creates an obvious conundrum. No one can guarantee every worker in every location that his or her job will always be there. That's a recipe for stasis, and it's impossible to deliver on anyway. But society could try to compensate losers more often than we do, and make the compensation more generous.

Here's an example that may sound fanciful. Suppose the government, facing fierce political resistance to reducing the production of coal, offered every coal miner, say, $500,000 under

[15] The International Trade Commission's (2016) comprehensive analysis of the ill-fated Trans-Pacific Partnership takes the analysis out 30 years!

just one condition: that he never seek to work in a coal mine again. He can do anything else he wants, but not be a coal miner. Wouldn't most miners jump at the deal? Wouldn't that be more efficient—and greener—than the web of subsidies and special favors we have granted for years?

Intellectual purity: Economists are naturally attracted to clean solutions based on intellectually sound principles. It's what we were taught as students and what we, in turn, teach our students. Perhaps most prominently, we worship at the altar of Pareto optimality. The example of optimal tax theory was mentioned already. It's a complete, coherent package—beautiful, really. In stark contrast, the political world lives (or dies) on compromises, not purity. To be relevant to actual policy debates, economists need to escape the tyranny of the first best and learn to push for improvements, even small ones that may not adhere to any grand principles. As the great Paul Samuelson once put it in appraising an early version of what eventually became the 1986 tax reform: "The present mishmash is a bit worse than the new rigmarole."[16] That should be good enough.[17]

Fashioning legislation that can pass Congress, not pass muster in an academic seminar, often means coalition building, vote trading, logrolling, difference splitting, and compromise, compromise, compromise. The policies that emerge from such political deal making are unlikely to follow the neat contours designed by economic theorists. More likely, they will be ungainly creatures whose central organizing principles are hard to fathom, if indeed any exist—sort of like attaching the head of a horse and the tail of a monkey to the body of an elephant. But

[16] Samuelson (1985).
[17] I think Samuelson was far too harsh on the Tax Reform Act of 1986. It was a marvelous piece of legislation.

policy wonks must learn to live with such ungainly creatures, even if they never grow to love them.

For example, the Dodd-Frank financial reform legislation passed in 2010 was, in my view, a sterling legislative accomplishment. It fixed, or at least ameliorated, a long list of problems that had left us vulnerable to a devastating financial crisis. Yet it did not get everything right. For example, Dodd-Frank left the crazy quilt of multiple financial regulators largely intact.[18] Why? Because both Representative Barney Frank (D-MA) and Treasury Secretary Tim Geithner decided not to initiate an unwinnable war with congressional barons who could be counted on to protect their home turfs—even if that meant sinking the whole bill. They were right, I believe.

Similarly, if we ever get immigration reform, it will likely be forged in a series of political compromises with no coherent principles or philosophy. If the final products of such legislative battles leave some not-very-political policy wonks feeling frustrated, that's a trivial price to pay. The work of government must be graded on the curve.

Relatedly, we should not lose sight of the KISS principle in politics: "Keep it simple, stupid." Many problems are inherently complex, as are their solutions. That's life. But complexity doesn't sell newspapers, keep TV viewers from changing the channel, or fit into a tweet. Plans that are too complicated to explain to the public and their elected representatives labor under a severe handicap in a democracy, no matter how solid and elegant their intellectual underpinnings.

[18] Well, not quite. It did abolish the disgraced Office of Thrift Supervision. It added, however, a new agency: the Consumer Financial Protection Bureau.

In such cases, economists need to learn to search out, promote, and then live with simpler alternatives. Such policies may fall short of the best solutions economists can think of. But in the real world, the "pretty good" may be better than the "best." Once again, optimal tax theory provides a marvelous example. Try explaining the importance of cross-elasticities of demand to your senators.

Messaging: This brings up a related issue. Economists, and intellectuals in general, often look down their noses at messaging. It's no wonder. Political messaging is at best oversimplified and at worst deceitful. Most of us don't want our sons and daughters to grow up to be message meisters. The message meisters, for their part, don't want our "help" anyway.

However, messaging is the way a policy gets sold to the electorate. It's not enough for a proposal to *be good* on standard economic grounds, it may also have to *sound good* to the ears of non-specialists. Sadly, those two criteria—*being* good and *sounding* good—do not always align. Good messaging about economic policy can help, even if it cuts corners here and there. Designing such messages will never be left to economists, of course. The politicos will see to that. But maybe we economists could help a little rather than hinder.

Axioms of rational choice: The *independence of irrelevant alternatives* is one of the basic axioms of rational choice. It seems straightforward and, under economic logic, it is. But remember, the political world operates under an entirely different form of logic: political logic. It would be useful for economists who wish to dabble in that world to understand that logic better.

Under political logic, seemingly irrelevant alternatives can turn out to be maddeningly relevant for a variety of reasons. One is logrolling. If Senator Smith's support for Senator Jones's bill hinges on Jones's support for Smith's, it may be essential to take up the two bills closely in time—even if they are totally unrelated. And since the congressional machinery can cope with only a limited number of issues at once, doing that may crowd out other, even more "irrelevant," bills from the legislative calendar. Alternatively, it may dictate inserting totally unrelated provisions into a "must pass" bill.

Accidents of geography may also intertwine issues that are intrinsically unrelated. If the voters of, say, Iowa are being asked to swallow some bitter bill—say losing the primacy of their presidential caucuses—their representatives in Congress may insist on sugarcoating the loss with some kind of goody, such as larger ethanol subsidies.

For these and other reasons, political logic can even give rise to something that is completely ruled out by Aristotelian logic: nontransitive preferences. Transitivity is a bedrock axiom of rational choice. If preferences aren't transitive, who knows what will make consumers happier? But that fundamental axiom doesn't necessarily apply in the political arena. Because of logrolling, or accidents of geography, or the vagaries of congressional scheduling, or shifting coalitions, some politicians may wind up favoring Policy A over Policy B, favoring Policy B over Policy C, and yet still prefer C to A. That makes no sense under economic logic. But it may under political logic.

Path dependence: In economics, we generally think first—and maybe second and third—about unique equilibrium states rather than path dependence. Examples abound.[19] A free market winds up at the point where the supply and demand curves cross, regardless of the disequilibrium path that brought it there. In macroeconomic theory, the unemployment rate

[19] There are cases of multiple equilibria in some theoretical models. But that is an entirely different issue.

converges to its “natural” rate, regardless of where it started from. And so on. Equilibrium theories dominate economic analysis; path dependence is the exception.

But in political matters, path dependence is closer to the rule. The hand of history is not dead. Where you wind up depends on the path you take to get there. Depending on how you start the journey, you may wind up in Rome, Italy, or Rome, New York.

Economics tends to pattern itself after physics, where, e.g., the final resting point of a swinging pendulum is unique, not path dependent. But other scientific examples do exhibit path dependence. Consider evolution. Because of the vagaries of mutations, Darwinian natural selection does not lead to a predetermined equilibrium outcome. Had a series of random biological events over many millennia turned out differently, we humans might look quite different than we do.

Path dependence is not unknown in economics. One well-known example was the competitive war between VHS (“video home system”) and Betamax technologies for the VCR market, which began in the 1970s and lasted about a quarter century. Many technologists deemed Betamax to be superior. But VHS won the competitive race through better marketing and cleverer licensing arrangements that won them market share first.

Politics is often more like VCRs than pendulums. Political outcomes are strongly path dependent because the game of politics is played with rules that are in constant flux. Timetables and sequencing matter. Quirks of history push decision-making processes in different, sometimes surprising, directions. Personalities and group dynamics change. All these things and more can and do leave lasting imprints. The path influences the ultimate policy because, unlike the pendulum, there is no natural resting place. Economists need to realize that.

I do not, for example, believe it was in any way preordained that Hillary Clinton's health reform plan had to come to naught in 1994, nor that Barack Obama's effort in 2010 was bound to succeed, nor that Donald Trump's attempt to "repeal and replace" Obamacare in 2017 was doomed to failure. Nor do I believe that the impasse between President Obama and the Republican Congress inevitably had to produce a government shutdown in October 2013 but not in December 2015. That is the way things actually turned out. But in each case, it is easy to imagine minor political "perturbations" producing different outcomes. That's path dependence.

To many politicians, equilibrium is an abstract concept, close to meaningless. Yes, that's often a mistake on their part. In many economic matters, equilibrium states really are important, and politicians who ignore them may be setting themselves up for some unpleasant surprises. They do so anyway, however, because they take path dependence for granted. Economists may be able to help here. But to do so, we need to remember that equilibrium is a concept alien to many politicos.

Earmarking: Next, consider *earmarking* a certain stream of tax revenue to a specific funding purpose. The word sounds like *earmarks*, but the meaning is very different. The earmarks discussed earlier are special interest provisions. They are unfair, inefficient, blatantly political, and sometimes almost comical in their absurdity. They flunk every criteria save one: political expediency. Earmarking, by contrast, is rooted firmly in popular conceptions of fairness. People view it as fair to earmark gasoline taxes to the Highway Trust Fund, payroll taxes to the Social Security Trust Fund, and so on.

Earmarking revenue streams in this way is inimical to optimal tax theory. The latter begins with an *overall* need for revenue, not broken down by purpose, and then proceeds to calculate the most efficient way of raising that much revenue. Why, it (implicitly) asks, should we think that the revenue yielded by the gasoline tax just matches the expenditures needed on highways and bridges? *Economic* logic finds that coincidence unlikely.

But what about *political* logic? Citizens may be more willing to pay taxes if they see a direct, tangible link between the taxes they pay and the benefits they receive. They will almost certainly find it fairer. Isn't it *fair* for users of roads to pay for their maintenance? On both counts, people may see earmarked taxes as less burdensome, and the spending programs they finance as more appealing. Looked at from the conservative perspective, an earmarked tax makes it clear that more government spending is not a free lunch. To get more, you must pay more. Either way, bad economics may be good politics.

Jobs over consumption: I come, finally, to what may be the biggest difference of all between *homo sapiens* and *homo economicus.* We economists have a clear notion of what motivates people: maximizing the utility of consumption, $u(c_1, c_2, c_3,\ldots)$, where $c_1, c_2, c_3,\ldots$ can connote either different goods or different time periods (or both). If work/leisure choices are included in the analysis, more leisure is always assumed to be better than less; that is, hours of work *reduce* utility. Such utility functions underpin much—should I say "all"?—of welfare economics.

But they may not correctly characterize the real people who inhabit Planet Earth. Having and protecting their jobs may be far more important to many people than being able to purchase more consumption goods because prices are lower. This attitudinal difference is basic, and it comes to the fore, for example, in the public's views on international trade. Survey respondents favor the lower prices that free trade brings them—just as economists assume. They tell pollsters that. But many respondents abandon Ricardo whenever job losses are mentioned, even if it's not *their* jobs that might be lost.[20]

If job security trumps the vector of consumption goods in citizens' utility functions, then economists' recommendations based on $u(c_1, c_2, c_3, \ldots, \ell)$, where more leisure time, ℓ, is a good thing, will fall on deaf ears. Not only that, but conventional welfare economics—how we distinguish between better policies and worse ones—crumbles. It's a disquieting thought.

A summing up

If the twain is ever to meet, each side must learn some things from the other. Politicians must learn to appreciate economic constraints and incentives, while economists must come to understand that political constraints and incentives often take precedence. In practice, as I've argued, if this meeting of the mindsets is ever to occur, politicians must change only a little while economists must change a lot.

The pols must learn that the time horizons that *really* matter in politics are measured in years (especially years to the next presidential election), not in days or minutes. They must also realize that what *is right* will ultimately matter more to their constituents than what *sounds right* initially (and superficially), because better policies will produce better results. So by all means campaign in poetry, but once elected, govern in prose. A little economics can help with the prose, but alas, not too much with the poetry.

[20] Blinder (2019). Caution: Polling results on "free trade," "globalization," etc. are extremely sensitive to wording.

Economists need to speak English more and techno-speak less—at least when we're out in public. In particular, academic economists need to realize that message matters in a democracy. In practice, it probably matters far more than purity of thought and ingenious policy design because, if you can't explain something to the populace, it's unlikely that you can persuade the politicians.

As a corollary, economists should keep the KISS principle firmly in mind. Many economic problems are inherently complex, as are their solutions. But economists need to learn to live with, even to search out and promote, simpler alternatives. Ranked on politically relevant criteria, the good may be better than the first best.

We economists also need to remember that real people do not behave like the caricatures who inhabit our models. We call the latter *homo economicus* for a reason. It's a strange species, unlike real human beings. Among other things, people make systematic errors over and over again. Their expectations are unlikely to be "rational" by economists' definitions. They are probably more interested in better jobs than in cheaper consumer goods. And when they find themselves in economic difficulty, they want their government to provide a hand *up*, not a demeaning hand*out*. For example, they almost certainly prefer *pre*distribution (e.g., higher wages and better jobs) over *re*distribution via the tax-transfer system.[21]

We economists must also stop belittling transition costs. The hard truth is that almost everyone lives in transitions almost all the time. The more we denigrate "short-run" dislocations stemming from economic change as annoying little "transition costs" that spoil the

[21] Kuziemko et al. 2023.

models' neat conclusions, and therefore can be ignored, the more we ensure our own irrelevance in the policy arena.

Perhaps most important, we economists must recognize that fairness is far more meaningful and important to most people than the economist's cherished notion of efficiency. One obvious consequence is that policy proposals that enhance efficiency but strike people as unfair are unlikely to succeed in the political arena. That doesn't mean economists have it wrong; more often than not, we have it right. But when you are the only lobbying group for economic efficiency—and a tiny, powerless lobby at that—you are going to lose repeatedly if you go it alone.

None of this is impossible, it's just hard. And if we can manage it, we'll be in a position to achieve what John Maynard Keynes (1931) dreamt about more than ninety years ago: a world in which economists are "thought of as humble, competent people, on a level with dentists."

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