



Character Issues: Classic Reprints

This is a reprint of William R. Allen, "Economics, Economists, and Economic Policy: Modern American Experiences," in History of Political Economy, Volume 9, no. 1, pp. 48-88. Copyright, 1977, Duke University Press. (www.dukeupress.edu). All rights reserved. Used by permission of the publisher. A couple of very minor changes have been made to the text, with the author's approval. We have preserved the reference style (footnotes) of the original. At the end, we have added an up-to-date "About the Author." We thank Jill Scharl for typing up the piece.

Economics, Economists, and Economic Policy: Modern American Experiences¹

William R. Allen²

ABSTRACT

Economics has come of age in the 1960's. ...the Federal government has an overarching responsibility for the nation's economic stability and growth. And we have at last unleashed fiscal and monetary policy for the aggressive pursuit of those objectives. ...Interwoven with the growing Presidential reliance on economists has been a growing political and popular belief that modern economics can, after all, deliver the goods.

—WALTER W. HELLER³

1. The Ford Foundation generously provided a grant which made possible the interviews on which this paper is based; the final draft was prepared during the tenure of an Earhart Foundation grant.

2. Professor Emeritus, Department of Economics, UCLA, Los Angeles, CA 90095.

3. *New Dimensions of Political Economy* (Cambridge, Mass., 1966), pp. 1, 2, 3.

A major problem of our time is that people have come to expect policies to produce results that they are incapable of producing. ...we economists in recent years have done vast harm—to society at large and to our profession in particular—by claiming more than we can deliver. We have thereby encouraged politicians to make extravagant promises, inculcate unrealistic expectations in the public at large, and promote discontent with reasonably satisfactory results because they fall short of the economists' promised land.
—MILTON FRIEDMAN⁴

I

It is comforting, even if not wholly realistic, to suppose that we study economics most basically in order better to understand the world. For some, a largely abstract comprehension, which subsumes conditional prediction, is ambition enough. Others aspire to empirical, operational prediction. And for a more limited group this prediction in turn appears to make feasible some degree of discretionary control—including, for net good or ill, control by governmental authorities. Economics has had much of “political economy” in its history. The community seems to suppose that it can obtain useful policy guidance and administration from the economists it subsidizes—and rarely has the economics fraternity discouraged such supposition. Economists have, in various ways, tried to supply what has been demanded.

We have an enormous literature on economic policy targets and on policy tools and their proper assignment and utilization; in addition, we have been blessed with a few attempts to formulate a general “theory of economic policy.” But the policy literature, which purports even in its most abstract statements and most esoteric modes to resolve actual problems, typically aggregates selected variables too grandly but encompasses the world too narrowly, categorizes too inaccurately, and specifies too simplistically to provide real guidance to real economists in real bureaucracies. And from time to time a member of the fraternity relieves himself of a bit of Olympian poetry about the universalistic requirements of the Master Economist in directing mankind past the pitfalls of the valley of scarcity. But what do working economists—not all of whom well resemble Renaissance men—actually do in the government?

It has been my interesting fortune to interview—with permitted use of a highly visible tape recorder—a number of economists who have been active at

4. “Have Monetary Policies Failed?” *American Economic Review* 62 (May 1972): 12, 17-18.

some organizational level or other in the determination or the implementation of national economic policy, mainly in the United States. Necessarily, my sample is modest in relation to the very large and varied universe; almost as many economists have been in government for at least a short term as have written Principles texts—and it is to be hoped that economists have done less harm as civil servants than as textbook authors. My group of some sixty interviewees differ in age and experience and governmental rank. Most of them basically were or are academicians on temporary government assignment, but several are in permanent government careers, with almost all literally in government, but a few being outside consultants of some sort.⁵ Seemingly in considerable candor, they talked about *what* is done by the economists in government, under what *circumstances*, for what *audiences*, subject to what *constraints*, with what *analytics*, with what evident *impact*—and about how governmental decisionmaking or the advising of decisionmakers might be done better.

II

It would be exceedingly innocent to suppose that most or even many economists in government devote their major energies to quiet, imaginative meditation on the massive problems of the universe or to the construction and utilization of elaborate, elegant models, either of theory or of econometrics. Government life typically is not the contemplative life of the logical and independent mind, with scholars of maturity and continuing accomplishment systematically

5. There are uncounted hundreds of “economists” and “economic researchers” in the federal government. Probably most and perhaps all of them fully earn their daily bread. But a large proportion are essentially clerks and research assistants. The interviewees in this project are relatively *senior analysts*—up to ambassadorial level, cabinet members, and immediate Presidential advisers. Further, the focus here is heavily on *policy advising*. References to “government economists” pertain to those policy-making and policy-advising economists who were interviewed, along with those to whom the interviewees themselves refer. The Council of Economic Advisers and the Federal Reserve are each represented by about a dozen interviewees; the Departments of State and Commerce each provide about half a dozen; in all, more than fifteen departments and agencies are included. Some two-thirds of the interviewees were known to the author by only name and reputation prior to the interview; perhaps fifteen of the total group can be described as close acquaintances. Each individual is an obviously appropriate participant in the project, but the group can hardly be representative in a formal statistical sampling sense of the uncertainly delimited universe of “government economists.” Rather, it is a numerically nontrivial set of commonly conspicuous people who have participated in policy-advising activities at various responsible levels and who graciously submitted to the inquiries of an amateur but systematic interviewer. It may be added that for all of the diversity of government agencies, dates of government work, nature of responsibilities, and philosophic orientation represented here, these people provide a great degree of unanimity of view on the issues of this study. The interviews took place between October 1972 and April 1976.

bringing their accumulated wisdom and developed expertise freely to bear on the policy issues of today and on the shrewdly anticipated problems of tomorrow.

In the seemingly typical situation, government economists are quick-draw specialists, shooting from the hip: gather a few data and prepare a memo by tomorrow morning—if not by this afternoon. In this commonly hectic and sometimes frantic scramble, the topics can be significant and complex, and the audience can be high in the table of organization. Paul W. McCracken, former member and later chairman of the Council of Economic Advisers, observed that

one of the problems for an academic...is to shift gears in terms of the time dimension and recognize that we may get a problem today on which we must have a memorandum...this evening, where the academic's inclination would be, well, I ought to have at least a semester to do the work. ... Time pressures were severe.⁶

G. Warren Nutter, while Assistant Secretary of Defense, found that

under the pressure of the need to make immediate decisions, there is never an opportunity to study a problem in the sense that an academic wants to study a problem. ... The decision has to be made quite often within a matter of minutes. [By the time you try to] gather all the facts and apply a sophisticated model...it's a new problem—the momentum of affairs will have already changed the nature of the situation. ... In the academic world, you think now and decide never; and in the government, it's just exactly the other way around.

In the government experience of Lawrence A. Fox, formerly Deputy Assistant Secretary of Commerce for International Economic Policy, “there is absolutely no time for the policy people to contemplate...there isn't any time really to think through a position.” It follows that “a constant flow of analytical reports coming along from staff” is required for informed decisionmaking—but “in the Commerce Department...we really have a minimal kind of research operation,” and “characteristically, in my position, there isn't sufficient time for reflection and consultation with the people who have done the staff work.” (More recently, in spring 1976, Fox has noted that while the political appointees still do not have time to think, the research function has been significantly strengthened by a restructuring of the former International Economic Policy Staff into an enlarged Bureau of International Economic Policy and Research.)

6. A transcript of this interview is included in a pamphlet, Paul W. McCracken, *Reflections on Economic Advising* (Los Angeles: International Institute for Economic Research, March 1976).

With commendable versatility, the government economist not only does much shooting from the hip, he also puts out fires: crises, big and small, must be dealt with right now. For Gardner Ackley, while a member and then chairman of the Council of Economic Advisers,

the standard practice was responding to emergencies and dealing with problems between now and tomorrow morning, sometimes meeting all night. The typical deadline for things that were requested was a few hours. ... There were opportunities from time to time to do some preparation, but it was the exception rather than the rule.

Burton A. Weisbrod, when a member of the Council's staff, was instructed at 11:00 one morning to prepare an analysis by 4:00 that afternoon of "the economic payoff from the Peace Corps." (Weisbrod found the experience disconcerting but instructive: "you can always do *something* under any kind of constraint." Further, he took consolation in the thought that with "rapidly diminishing returns," having four days or even four weeks might not have greatly improved the research product—"now, if you had four years, you could probably do something more." W. Lee Hansen, another former CEA staff member, gained the same impression: "Maybe if you had a year for a project, you could do it right. But often, I think, eight hours or one week was probably adequate for what you could really do with it.") Robert J. Lampman recalls remonstrating to the CEA chairman that "you can't put anything down in an hour or a weekend" on a large, complex topic. But the chairman replied that "if we don't someone will." And he argued that economists should not defer to non-economists on economic questions. Still another CEA staff member, J. Carter Murphy, in his first week on the job was instructed by the Council chairman to prepare a memorandum on the balance of payments impact of a West Coast dock strike. Murphy mused that that should be an interesting project of perhaps four to six weeks; he was informed that he had six hours—including typing time. (The memo was to be provided to government attorneys, who were to seek a Taft-Hartley injunction in court the next morning. The legally specified basis for the injunction was demonstration of existence of a national emergency. So, first the Administration made the decision to claim a national emergency, in order to obtain the injunction, and then economists were to provide supportive data and analysis.)

This latter incident was mentioned to the director of an "analysis" office in one of the major departments, who responded:

We have that all the time. It's kind of silly. This is almost the order of the day, really. Time tables are very short. ... [The current Secretary] never gets

around to anything until Monday for Tuesday morning, and so people work frantically all day and literally often all night to have it ready for Tuesday morning. ... So we had to pull this thing together, rewrite some, edit it, get it typed, reproduced in umpteen copies, because everything has to be in umpteen copies. We had about 95 pages in about six hours ... I had the whole staff working on it. Well, we did it, but you're not very proud of it. ...I can cite frantic things...papers fell all over the floor, and we were all crawling on the floor getting our particular bits. ... It is really incredible, you just can't believe it...it was laughable...really wild...its is appalling, and...sometimes these papers and things that are put together are the basis for policies and decisions which are made.

Inevitably, in this vale of scarcity, uncertainty, expensive information, accident, and nefariousness, the government official will be confronted by something of a stream of sticky surprises calling for immediate responses. But some are convinced that the size and rush of the stream could be substantially reduced by quite unremarkable foresight and initiative. A senior economist in the Federal Reserve, Samuel Pizer, complains:

I think it is amazing, considering the number of economists employed in the U.S. government, how little there is that seems to me to be the product of having taken a decent amount of time to prepare lucid, well constructed documents and how much time instead goes into scrambling to produce a position paper on order, even though the fact that these position papers will be needed is readily foreseeable a long time before. It seems to me, over and over again, we get awfully close to the point of position-taking before there is staff input. There are many problems which have been kicked around for years on which there are still not, in my opinion, decent position papers. There is too much scurrying around.

Neil H. Jacoby, former member of the Council, holds that "Sam Pizer is exactly right on this" and recommends "a separate office...reporting directly to the President" on contingency economic plans,...just as the Pentagon has contingency military plans." Problems of effective anticipation are not confined to economists. John H. Jackson, while General Counsel in the Office of the Special Representative for Trade, found it difficult to "do things that have an impact for, say, a year from now or two years or ten years from now—things tend to always be too immediate, next week's meeting or next month's meeting..." While it is possible to do a better job of looking ahead and minimizing surprises,

a lot depends on the very high level people and what they encourage. ... What it takes is a man who has some vision longer than next week's affairs and who is willing to deprive some of the resources that theoretically are needed for day-to-day activities in order to man or staff some resource base for the longer range and then to give him some head. ... That's why I happen to think universities are so important, because they can step back from that, and they can allocate resources on the basis of non-bureaucratic judgments.

While the CEA has had only limited success in identifying "the problems...that were coming along...and...laying the groundwork in advance," Ackley warns that

Responding to problems with only five-hour deadlines should [not] be overstressed, because many of the problems were continuing problems...even though the deadlines with respect to a particular decision may have been short, often the problems were of serial nature, and there were opportunities to sort of build cumulatively the education of the President and the development of the policy.

In similar vein, J.J. Polak, Economic Counsellor and head of the Research Department of the International Monetary Fund, finds that

continuous work on a subject enables you to have a background from which you can derive judgments right away. [Commonly,] problems that come for immediate action are really new versions of problems we have met five or ten or fifteen years ago, to which you have been addressing yourself for a long time.

Nutter, rather less sanguine, has "no doubt...at all" that people in government can do better than they have done in foreseeing difficulties and preparing for them, and "any governmental policy that allows itself just to be carried along, drifting with the course of events, is going to be a catastrophe." Still,

operations always tend to overwhelm plans. Once you are in the midst of a role in process, it always seems that you are so preoccupied with having to put a quick fix here or take care of this problem there that nobody really can be insulated to sit down and think and solely think. In any event, it's a kind of futile enterprise. I think in the political operation to imagine, to conceive, that what you ought to have is two groups of people, one group over here that are running things and meeting the day-to-day problems and another

group over there that are just thinking and planning ahead, is a mistaken conception. You can't do that, because you can't make sensible plans unless you have your fingers involved in some of these problems, too.

Even in think tanks, operational pressures can detract from considerations of broad and long-term possibilities, says Arthur S. DeVany, formerly with the Center for Naval Analysis. A group at CNA was "designed...to look at...a global picture...be a world futurist." But the director of the group, even with "his charter to be absolutely free of short-run work...found himself wrapped up in the day-to-day staff work and the immediate...pressing decisions—do we put the fleet in the Indian Ocean."

Along with *ad hoc* fast shooting and conflagration dampening, there are the regularly scheduled reports to prepare—annually, quarterly, weekly, daily, perhaps hourly. Even if one finds no reason to doubt the gross worth of all this busyness, their preparation absorbs a huge proportion of the time and energies of many people. A former CEA staff member, Richard N. Cooper, notes that the Council's Annual Report is

essentially a book written in about six weeks...constantly revised as you go on. ... Sometimes the Report had to discuss in some analytical detail decisions that were not finally taken until a week before Christmas. ... It was really a continuous, rolling process of drafting, cutting and pasting, revising, redrafting...these drafts were all sent around the government for comment by the relevant agencies. Then we would have to collate those comments, decide which suggestions to accept, which ones to reject, check them all out by phone. If the agency thought very strongly about some suggestions we were rejecting, they would escalate a bit in the hierarchy.

It is commonly claimed by office and agency directors that intellectual initiative on the part of staff members is not suppressed and, indeed, is welcomed. Preparation of papers for submittal to professional journals (after clearance) is sometimes encouraged. But where time and energy are quite thoroughly absorbed in nitty-gritty activities of the moment, research initiative will not often be conspicuous. In one "analysis" office, there is not a single full-time "pure" researcher, according to the director, and

there is really no research which you can call research. Now, sometimes we are asked to fill out forms on what research is being done. ... But most of it is pretty practical, short-term work; it's not research in the university sense. ... Universities still provide a much more...comfortable haven for people who want to do research. ... Once in a while one of our bosses will sort of

encourage us a little bit in this. But they forget about it next week when they need something—it all goes out the window, and this is the way it goes on through the year, so in the end you don't really get anywhere.

Similarly, in the experience of Evelyn M. Parrish, Chief of the Balance of Payments Division of the Commerce Department, “analysts get more and more absorbed in the problem of collecting...and preparing statistics. ... So, even though from time to time we hire people who are only to be analysts, sooner or later they are absorbed into the system.”

Robert E. Baldwin, one-time Chief Economist in the Office of the Special Representative for Trade, found his staff

too small to undertake any elaborate analysis, and there are too many day-to-day problems. ... Where I think this should be done, of course, is on the outside in the academic places. I don't think you can do very good research of a real academic quality in the government. As soon as the agency head finds out he's got a smart guy, that guy not only can do a good research job, usually he is able to write the best memo in one day, and he will be usurped for that purpose, and he just won't be left alone.

Weisbrod agrees:

...don't fool yourself in thinking that you can get any serious research done within government. I think that's virtually impossible, for there are too many pressing demands on people, and long-term payoffs—where long-term means even six months, let alone six years—are viewed as too futuristic: we've got problems today to deal with, we can't spare you to work on something for the next six months. ... I think that long-range research of the type we associate with the academy cannot be done inside the government, both because people cannot be shaken loose for a long period of time, and, second, because there are too many policy constraints that get put on them, so that researchers are not allowed to look into certain kinds of things.

III

In performing their chores—the large and the trivial, the regular and the *ad hoc*, for audiences of different sizes and natures—government economists are subject to various constraints. We all must act within limitations of many sorts and

in the light of a variety of incentives, but the world of the government economist can be, and typically is, very different in important respects from the world of the academic economist.

Even the visitor to government, if he wishes to be effective or at least to avoid total frustration, will find it expedient to try to be accepted by and to work with the permanent government personnel. And often acceptance does not come easily. The academic economist evidently is commonly looked upon as an overinnocent and overpaid interloper, gamboling in on a brief quasi-vacation junket, who proceeds to grind out more or less elegant but quite useless answers to questions which are, at best, only marginally germane to the purported real work of government. "We were something like the 90-day wonders," Weisbrod recalls:

we came from the outside, and we were suddenly in the position of sort of looking over somebody's shoulder where that somebody had been there for twenty years, knew all the ins-and-outs of the things, and we were...saying, well, why don't you do it some other way? ... So I think that there were varying degrees of hostility or resentment. How great those degrees were was probably largely a matter of personalities. ... One reason why there wasn't more hostility than there might have been...[was that] they also knew we weren't going to be around very long.

But even the brevity of visitors' appointments may engender suspicion, Hansen suggests, for it was felt that "these young punks...won't have to live with the consequences of whatever recommendations they make." While "we, as outsiders, could come in and raise" certain elemental and analytical questions which bureaucrats and their own "somewhat captive" economists often found it psychologically and tactically inconvenient to raise,

you have to show some humility about it all. ...you have really got to work with them and gain their confidence, at least to some degree, so they will listen. ... On the other hand, if you work too closely with them for too long..., then you become an extension of them, and then you have lost your effectiveness.

A warning against alienation comes also from Thomas D. Willett, former CEA staff member and current Director of Research and Senior Adviser for International Monetary Affairs in the Treasury Department:

If a smart-aleck economist comes in too brashly and scares the bureaucrats too much, it can be very counterproductive in the sense of building up their

hostility toward more “reasonable” economists and will reinforce biases they have against academic types.

How far one goes in differentiating his mode of behavior, in specifically adapting to the particular environment, may turn heavily on whether one plans to stay in the world for a prolonged period. Believing oneself to be only a short-term visitor in government, with an avenue of return to academe or some other alternative, apparently can do wonders for the maintenance of a free spirit and of a manner of independence. Most of the CEA staff, recalls Weisbrod,

consisted of people like myself, who were there for one or two years, and that gave us an independence that I thought was very important. ...we could say what we thought—sometimes it was foolish but other times it wasn't —...because we didn't have to worry about the long-term consequences. ... I didn't have to worry about whether somebody in another agency got angry with me.

This view is supported by Willett: not only can temporary Council appointees “call them as they see them without worrying about what that's going to do to the advancement of their career,” but “one of the functions is to come in and ask silly questions a lot of times—maybe two-thirds of the time they may be silly, and another third they may be something the people haven't thought of. I think...it's essential to have a healthy component of in-and-outers.”

In the view of Cooper, the members of the CEA staff, most of whom were academics,

did not have the usual concerns that civil servants have about their own career in government...they were more forthright in dealing with other agencies. They spoke out more frankly, perhaps, than civil servants would on issues on which CEA had a position. Secondly, I dare say they spoke out more forthrightly with respect to their own personal positions, even when CEA did not have an agency position or even when there were shadings of disagreement within CEA—making clear that my own view is thus-and-so although in this area I can't count on my boss to hold the same view. I think there was more of both of those things at CEA than at the typical government agency, where people stay in line or are kept in line.

While largely agreeing, elaboration is provided by Don E. Roper, of the International Finance Special Studies Section of the Federal Reserve Board: visitors and consultants, too, are not immune to the temptations of designing their remarks to enhance the probability of being invited to return. C. Fred Bergsten,

formerly Assistant for International Economic Affairs in the National Security Council, agrees that “in any job...the more options you have in your own life, the more forthright you are just bound to be.” And from the viewpoint of the advisees, “that cuts both ways”: on the one hand, “his superiors should view it as beneficial, because it means they are going to get better advice from him; on the other hand, his superiors can, therefore, not count on...unquestioning loyalty from him.”

None of the interviewees held that he had been so bound to the support of a “party line” that there had been a clear (or at least fatal) violation of his “professional integrity.” But here we are in a subtle area, and unconscious refuge may be taken in semantic niceties and delusions. One may sternly refuse overtly to falsify—and yet, if he stays with the organization, tailor his substantive activities and choice of emphases in a manner intended to minimize his conflict with the rest of “the team.” In the CEA, “generally there was no party line,” Weisbrod says, for “very often we were in issues at an early stage where there was no policy.” But “where there were policies..., there surely was what you would call a party line, and it was definitely constraining.” In a hierarchical arrangement, with communications directed strictly through channels, one’s immediate administrative superior can inhibit the researcher and mold the substance of his work. In an effort to be heard, a sense of tactics may shape professional activity. Walther Lederer, formerly head of the Balance of Payments Division of the Commerce Department and then with the Treasury, observes that not only do “people like to be liked,” but they “like to feel that they have some contact with the higher level.” Roper suggests that agency heads “don’t have to say anything for people to build in important constraints on what they do.” One may well “shy away from attacking areas...or conclusions that the [heads] wouldn’t like. So that does influence...research.” Thomas G. Gies, while with the Federal Reserve, observed that

success as an administrator required that you would have to be not too deviant from the party lines of the strong people within the organization, and this, then, is transmitted back to the people in the junior staff positions. If I were to write a memorandum...which represented a departure and a disagreement with established position, my boss would file it, he would not carry it forward. ... You just don’t like to butt your head against a wall, you do want your memoranda to get...read, and if you know that your boss is never going to include that memorandum of a particular kind, I think you would tend not to write that sort.

Analogous considerations are present at all organizational levels. As Director of the Treasury's Office of Tax Analysis, Harvey I. Brazer found that "our job was to prepare convincing cases, in a kind of advocacy role, once we had decided," in conjunction with the highest Department officials, "what our policy position was going to be." And "every once in a while there was a small—perhaps not so small, perhaps I only rationalized it as small—compromise with integrity." As a Treasury consultant to the CEA, Brazer argued against inclusion of a statement on the alleged benefits to the United States balance-of-payments position from a tax cut, a statement which was proposed for the Annual Report.

But it was felt that we had to say it, so we said it—and I even drafted the paragraphs, on orders, so to speak. ... I took the attitude that I didn't mind losing some small ones if I could win the big ones, and I suppose I felt that, well, if Walter Heller and Gardner Ackley and the others could take that kind of statement, I could, too, particularly since they were identified with the Report; I wasn't...there were certain kinds of rhetoric—and I guess there always is in government—that some people feel it necessary to pursue to gain support for a given position. ...we'll say almost anything...that Mr. Mills thinks is necessary for us to get 219 votes in the House, because without 219 votes in the House, there's nothing you can do. So you just sort of swallow it. ... It's a kind of political tradeoff, I suppose. And I think there's a danger in people staying in that kind of job too long—they begin to accept these tradeoffs with too much complacency—...then the integrity of your position is pretty much bound to disappear.

Lampman recalls that, in preparing the CEA Annual Report,

staff members...would have to supply language for an idea that they found repulsive, for example, language that would appear to support the farm price support program without at the same time appearing to endorse it fully. And so you have a lot of waffling and weasel-wording of various sorts—and this was a recognized art in government that outsiders had a hard time dealing with. On occasion, it seemed to us most ludicrous, and the outside or academic types around the Council would almost get hysterical at times, and I think that some of us were glad that we didn't have to sign the Report.

Lampman provides another illustration of the adjusting of economic argumentation to political dictates:

Kennedy expressed interest in having something about poverty as a theme of his 1964 campaign for re-election. Now, you can't possibly then say that you are going to treat it as a purely academic or technical question. It starts off with this issue of political emphasis, so the question all along was how do you marry a certain kind of commitment to a President...with some notions of feasible and believable and credible theories of causes and consequences.

Prolonged adjusting to Administration positions and defending of policies which one has helped to implement, whether or not with conviction, all in a situation which tends to deteriorate intellectual capital, may preclude much imagination and innovation. In the opinion of Harry G. Johnson,

people who go into government on a career basis become...stale in their ideas, looking for ideas which really serve the Administration or what they think the Administration wants. ... It is very difficult to resist the temptation to try to take credit for policy, and the pressures on the economist then are to try to shape his thinking so that he comes up with a policy which is saleable. [In addition,] they lose touch with the subject. ... The people in government typically aren't all that good economists by the time they get somewhere. And what they're trying to persuade you is that bad economics is good politics and that they are better at the politics, therefore, you should accept the bad economics. [Since] by the time you get to the position of responsibility, the ideas you formed twenty-five years ago when you were a fresh and eager student are pretty well rigidified, ... I wouldn't expect innovation from that crowd, at all. ... First, you never get any time to think about fundamentals. Second, you make your career by implementing a policy. It's pretty difficult to say the policy you've spent your life implementing is the wrong one, let's change over.

Bergsten indicates a similar view with a much shorter time horizon. One goes into government "with a bank of intellectual capital," but within two years "you tend to get stale and perhaps most importantly, start spending most of your time defending what you have done rather than doing new things."

An economist who was long with the RAND Corporation, Roland N. McKean, feels that

it's very important to have options in the private sector of the economy or you do start calling them as you think your superiors would like to have them called, unless you are a very courageous guy—in which case, you don't survive there, either. ... It's futile to say that government economists should

not pay attention to what their bosses want. They simply won't survive...and they will be replaced with non-economists who will carry out these functions.

Lederer suggests that

in any kind of bureaucracy...the research worker feels under an obligation to supply the boss with an answer to any kind of question that the boss may want to ask. And they don't dare to tell the boss that sometimes you can't have an answer. ... [Further,] certain types of answers have found more favor with the higher level than other types of answers.

The pressures tending to mold a common staff orientation need not be (and evidently rarely are) calculated and overt. McKean suggests that

it manifests itself mostly...in a natural selection process within almost any organization. Most people find it uncomfortable to be consistently going against the party line or to have the disapproval, however subtly or mildly it is expressed, of their colleagues if they keep going against the generally accepted belief, if they keep swimming upstream, so to speak. And as they find this uncomfortable, nobody kicks them out, but a large percentage of such people, the mavericks, will leave.

And this process of coalescence of, and institutional domination by, similar-thinking individuals can take place without people "losing their integrity...either in the management end of it or in the worker end."

Others agree that there need be no deliberate design in order to achieve a comfortable, confident commonality of perspective. Probably a few people, Gies thinks, can maintain the ability, intellectual and psychological, to "shift gears" back and forth between the "isolated purity" of the independent analyst and the "current involvement" of "political affiliation." And most "at the Board of Governors level" tend to "become completely immersed" in policy; they cannot "disengage and do sort of non-associated thinking about financial matters." The immersion tends to result in captivity. William P. Yohe, who has served as a Federal Reserve consultant and resident scholar, observed a "complete turn-around" within "a few months" of a person who joined the staff of the Board, with

overt disavowal of much of what he had previously thought and said...he became a captive of the thinking of the Board...an intellectual captive. ...these people somehow come to think that they and they alone are

capable of rendering judgments on proper conduct of monetary policy and proper evaluation of past actions.

Few would hold that the bureaucratic natural selection process alluded to by McKean is invariably and entirely unfortunate, much less dastardly and damnable. The point at issue goes far beyond mere personal compatibility with and genial acceptance by associates—it has to do, more basically, with influence, with acceptable contributions to the joint effort, with avoidance of diluting and distracting the overall program. For a team member, “shape up or ship out” is not inherently a monstrous rule. But there can be the temptation to shape up by suppressing one’s own best judgment when it would be the better contribution to ship out. And to stay without shaping up (in the consensus view) can result in distress which does not clearly yield gain to anyone. There may be no satisfying solution to dilemmas of when to fight and when (and how far) to acquiesce—and when to resign. Hansen found that

one ended up often doing things he thought were unimportant, were not being correctly specified, or where there might have been some answer that was desired. [But] you more or less make a commitment, and you come down here for a year, and you have to hold your nose part of the time. ...while you could object and you could resign, the costs were rather high from a personal point of view.

Johnson suggests that such dilemmas are much more fretful to some than others:

It’s partly a matter of temperament. ... Some people are quite happy compromising, others aren’t. I think that there is a self-selection process involved, that people who know that they won’t compromise and feel that it would be a sacrifice of their integrity to compromise won’t take the job in the first place.

But there are those for whom “this problem of accommodating one’s self to a policy position with which one does not personally agree” can be extremely difficult, McCracken assures us, as in “before a Congressional committee having to defend a policy which I had opposed within the Administration.” Should one then resign?

Not necessarily. ...you don’t quit the team the minute the quarterback calls a play [you consider a mistake. But] there does come a time when the thing...to do is to get out. Probably anyone on the spot there has a little tendency to rationalize staying on too long.

Jacoby agrees and adds that anyone “who keeps his job at *all* costs is not only damaging his own integrity, but he is sabotaging the democratic process.”

Potential dilemmas in this context may be partially resolved by distinguishing those circumstances in which dissenting argumentation is tolerable and even to be encouraged from other circumstances in which an apparent unanimity is in order. Debate within the family; but close ranks in public support of whatever decisions have been made. Ackley reports:

we lost lots of arguments and, having made our case and having had it rejected for what were at least plausible reasons, not casually or capriciously, we had to avoid indicating disapproval. ... Obviously, when an issue was decided, you couldn't very well go around making speeches saying the decision was wrong, at least if you expected to remain on the job and be useful. ... [And] once a question had been really seriously considered. ..., it was useless to keep coming back and asking for that decision to be re-opened, at least too often.

It is a different situation for the staff economist when a decision is announced from rarefied heights of administration *without* calling for preliminary debate. There may be even a placing of certain potential policy options off-limits. During the Kennedy and early Johnson Administrations, the possibility of promoting and adopting an international financial arrangement of freely fluctuating exchange rates was not to be considered. Indeed, even the term “dollar devaluation” was never to be used. According to Weisbrod,

the issue of floating exchange rates was regarded as simply verboten, that is, you did not talk about it. ... apparently...there had actually been a decision that the term would not be used, that it would simply not be discussed. This was an issue which was closed; the President didn't want to talk about it, he didn't want to hear about it. So there were these policy constraints, and one simply had to accept them if he was going to stay on the job.

If one went ahead and prepared a memorandum on the matter, “it would have been regarded as, at the least, foolish—a foolish use of time and energy.” “Within the range of normal agenda,” James Tobin, when a member of the Council of Economic Advisers, did not find “anything that we thought was out of bounds for us to suggest or talk about—not any sacred cows. ...” Still, “at that time” in the early 1960's, “it would have been quixotic, and on a tactical basis it would not have helped,” to push the case for fluctuating rates in discussions with the Treasury. Helen B. Junz, Adviser in the Federal Reserve Board Division of International Finance, thinks that “it would not require enormous amounts of

courage” to propose suggestions that are not “terribly acceptable”—at least, if the suggestions are “within the realm of realistic policy options.” It would have taken a boldness a few years ago to advocate freely fluctuating rates because “it wasn’t a viable policy option at the time.” To be “very much on the fringe” of policy advocacy is to risk being “considered sort of a little bit nutty.” And “there are quite a lot of people who do not like being on the fringe, and who therefore would prefer to work in areas that were much less controversial.” Hansen found that not only was the idea of unfixing exchange rates “regarded as silly,” but inflation analysis “was all aggregate expenditures type of approach. The fact that the money supply might be important was taboo.”

One could hardly avoid the question, to what extent should the economist try systematically to incorporate, into his diagnosis and prescription, considerations of political feasibility and tactics? Few of the interviewees took a wholly “pure” stance. It is commonly acknowledged that the typical economist is something of an amateur in politics and that his comparative advantage lies in economic analysis quite narrowly circumscribed. And the economist’s partial advice may be properly swamped by other considerations. McCracken felt that “*we* had a responsibility to make sure that the President understood the *economic* aspect...; *he* had the problem of taking into account all kinds of dimensions of the problem.” Ackley agrees: “economists shouldn’t expect to win all the arguments...their role is to give what they think they know that’s relevant, but ...basically the decisions are almost invariably a compound of political and economic and broader policy aspects.” While some final policy decisions are clear-cut and easily handled, Francis M. Bator, while Deputy Special Assistant to the President for National Security Affairs, found generally that “things get to the President in the end because they do involve trying to make judgments which involve incommensurables and uncertainty about the consequences of choosing this or that.”

Even the economist utterly ignores only at considerable peril the program of the Administration, the fact that some topics and options are more or less clearly proscribed, legislative and administrative history, institutional mechanism and process, the seeming temper of the public, the chairmen and the compositions of key Congressional committees, and other “political” factors. “...the academic who has never had experience at a senior level in government,” McCracken suggests, “sometimes has trouble understanding that it isn’t just a simple question of a pure advice, namely, economics, being adulterated by other considerations.” Stubbornly consistent displays of what are generally deemed to be naïve un- or otherworldliness are not a shrewd tactic if one has hope of his analyses and recommendations finding a receptive audience: “there’s a limited number of spears your can afford to shatter” in causes doomed by conditions of political

reality, McCracken warns. The dilemmas of mixing “first-best” economics, philosophic orientation, and “realistic” politics can be painful—and costly to all involved. Bator recalls

one very good young economist in AID who had such a moral commitment to the kind of AID program...that the United States ought to be engaged in...but which was so totally out of scale with anything that Congress would conceivably consider that twice-weekly outrage and pounding of the table and taking the time of senior officials about why they didn't repeal the law of gravity really wasn't very helpful. At the other extreme, there is the danger of the man who gets so housebroken and so unused to pushing at boundaries, breaking the rules, who so comfortably accepts the particular prejudices of the minute,...the particular tactical “necessities” of the situation that he becomes useless, because, in effect, he stops building into his analysis an attempt at a longer view, at a wider set of values, at a greater range of choices or a sharper look at the real tradeoffs.

On balance, George P. Shultz, former Director of the Office of Management and Budget and Secretary of Labor and of the Treasury, regrets the tendency of economists entering government to “become instant political experts, and they are too prone to start talking about what is politically a good idea or feasible.” While they should be aware of “the fact that they are operating in...a political entity,” it is important, also, for them “to remember that their contribution is primarily as an economist. We want to hear what is the economics of this all about. There are plenty of people around...who are very alert to the political nuances of things.”

In the view of Charles P. Kindleberger, formerly of the Federal Reserve, the Bank for International Settlements, and, in various capacities, the Department of State, although government economists do well to avoid such involvement in “the political process” as might induce “putting body English on their forecasts in order to...achieve political effect,” they “have no choice” in taking “into account political facts of life.” Indeed, they may—with misgivings but in a presumably good cause—be active tacticians. In arranging the Marshall Plan,

once we got to a 5.2 billion figure for the first year, I defended it to the death. And any time I had to make a change in anything, I changed something else to keep it, simply because if we changed that number every day, we'd know that the whole thing would come unstuck. Somebody made up a joke that those computers...produced 5.2 billion on every problem for a long time after...it was the only number they could come up with. I'm

ashamed of that. On the other hand, that was acting in a political way—we all believed in the Marshall Plan, we all understood the political process. ...you oversell these things terribly. You really don't quite dare, in the face of a lot of opposition, say that we really don't know about how this will work.

While a senior economist with the Department of Transportation, James C. Miller III found it sometimes unsettling to be “an intermediary” between a policymaking office and outside economists, “trying to...get something accomplished and at the same time trying to...keep my intellectual credibility.” And there was still a third group to contend with, viz., lobbyists, which called for putting aside dispassionate objectivity and becoming an advocate. “By default, had I not been an advocate, I know which way the decision would have gone.”

The consulting economist several steps removed from the point and the person of actual decisionmaking may well describe what he judges to be a best solution, even if he realizes that he must provide also second-or third-best alternatives. But the government economist participating quite immediately in the decisionmaking process may feel either smothered or exhilarated by the intrusions and the parameters of political circumstance. Weisbrod concedes that

we were not expert political strategists;...even if we had been, we were not in a position to actually play that role. On the other hand, I think it's an exciting and intriguing kind of role. ... I think it was, as a practical matter, hard for us not to try to play amateur political strategist and think about how could we get this thing through that group, who would accept what, and what kind of friends and allies you needed to do what. So I guess we all played that in varying degrees, and I think some staff people did quite a lot of it...tried to get through to the right people and sway their views.

And perhaps those on the staff who were deemed by the Council members as “doing the best jobs were the ones who did get most politically involved...in the sense of sort of getting through to the top people.” In Murphy's view, the nature of the CEA's work requires concern with political aspects:

at CEA, every question is a policy question, and one deals with it only in policy terms, for the most part. ...one is not simply reporting data. The task there is, as data flows in, to try to assess its implications for...policy. ...the evaluation process is part and parcel of the measurement process and the analytical process.

Miller concludes that at the outset, “you might as well tailor even the specifics” of a proposed program “in the light of the political ramifications,” for “you were eventually going to have to answer those questions, in any event.”

The problem of preserving an academic purity, eschewing political considerations, and holding to analytically best solutions is exacerbated—or made quite impossible—for high-level officers. Such people, Nutter says,

go into a political process. [They do well to tell themselves] “I’m now entering into a political occupation, I’m going to have to say a lot of things in support of decisions that I wouldn’t necessarily be in favor of, but, because they have been the result of the process, I’m going to have to support them...I must face that openly and not try to delude myself that I can stand above this and somehow be strictly objective.”

For himself, Nutter would avoid government assignments which “would put me in an awkward position of trying to masquerade as a professional economist at the same time that what I was saying was strictly political.” Occasionally, Shultz would attempt to make explicit whether or not he was speaking as an economist; “but people get pretty impatient with you if you get too prissy about all that, and I think justifiably so. You have got to be a man among men and say what you think.” At the beginning of his work, Miller would try to avoid the making of “a value judgment,” but “typically, the policy-maker would ask for recommendations,” along with analyses, “and, after a while,...I simply gave up on the caveat and just forthrightly made recommendations, based on efficiency as a criterion.”

McKean adds that academic economists, too, might avoid some massive errors by taking into account

what is really realistic about the political process. ... I’ve seen many economists say, well, there are externalities in the private sector, we should turn to government. Well, if you ignore all of the political administrative difficulties, you might say government will handle it perfectly. I know they won’t. Now, I think it’s very important to take into account real organizational costs and difficulties in government, because otherwise you may be driven to such simplistic solutions as saying, there’s some imperfection in the private sector, move in the public sector—we’ll ignore political feasibility, we’ll ignore administrative difficulties, we’ll ignore incentive problems, we’ll just put it in the public sector. And that’s nonsense, because the public sector does have difficulties that stem from the political process.

IV

The problems and difficulties and constraints we have noted—organizational, psychological, tactical—are real and significant. There remains a different sort of question which is even more fundamental: what, in substance, does the economist have to offer to the policymaker?

The question can be broken into two aspects. First, how good is economic theory in general—how much does the economist know about the nature of the world and how much can he do to elucidate and to explicate it? And, second, how far can he usefully go with his elegant theory, how much of his magnificent analytics can he effectively utilize, in providing real, immediate guidance to the policymaker?

None of my partners in conversation contended that economists actually do more harm than good as policy advisers. Indeed, typically, it was stoutly maintained that the economist's basic orientation and general framework of analysis can inspire the asking of pertinent questions and the applying of appropriate criteria. It was felt that more extensive and systematic employment of elemental economic analytics could still further reduce losses from badly conceived and badly implemented policies. But there was a very high degree of unanimity in emphasizing that we here speak essentially of only "the economist's basic orientation and general framework"—this is, indeed, elemental economics, which typically is elementary.

Ackley recalls that in the work of CEA, "so many of the questions on which I thought that we had some useful input are questions involving fairly simple matters—which sort of orders of magnitude rather than very precise point estimates, or even just sort of signs of derivatives." McKean points to

just the basic tools and reasoning plus a few efforts that have been made to test hypotheses. ... I think we have a good deal to offer there, though it sometimes seems to me almost nobody in officialdom listens much to it. ... I think the economist's framework again is the right one to weigh the advantages and disadvantages as best you can see them. But when economists sit down and prepare models to try to trace out those consequences in any sophisticated fashion, I think it's just about as apt to be misleading as it is to be helpful. I'm not sure those analyses really deserve much weight in the official's eye.

Shultz fears that

oftentimes the person who seems to be the most skilled in the use of elaborate techniques himself tends to forget the basic, fundamental framework of price theory, say, which all of the elaborate techniques are to build on. The simple things are still pretty much true, and I think they do give fundamental guidance.

Weisbrod agrees that the economist's potential contribution is genuine but limited:

that which we have to offer is fundamentally very simple and second nature to economists but not to others, and I think it's essentially the notion of opportunity costs.

In Nutter's view,

you have to end up relying on the most fundamental, simple tools of analysis—they are the ones that are the most useful, anyhow, when you have to face these immediate decisions. ...if people really have a good grasp, for example, of supply and demand, they are in a very good position to deal with 95 per cent of the important issues...from the point of view of the government.

What is required, Hansen found, is

just good common-sense economics,...the kind of basic analytical framework that we all sort of got in Econ 101. ... Simple supply and demand and benefit-cost...if you can just keep these things in your mind, plus if you are open to seeing how they might have to be modified in the light of the institutional constraints and considerations, then, I think, that's the game, really.

Willett is

extremely impressed with the power of Ec 1 economics. ...in a lot of areas there are cases where understanding a little bit of simple economics can lead to an improvement in policy...if you know it, and if you are willing to follow it.

In the CEA, "a lot of the stuff was done just on the back of an envelope," says Lampman, who is

generally skeptical about how much you improve the quality of advice by referring to very elaborate studies of quantitative character...economics in many critical situations is a matter of judgment rather than of science, of art rather than specific, well-established causal relationships.

McCracken makes explicit a dimension

which...seems occasionally not to be well understood by our brethren in the profession. While I was in the Council, I found myself spending a far larger proportion of my time than most people realize on what might be called "micro" economics. And while microeconomics during much of my lifetime has tended to be a little bit the Cinderella, as it were—it was macroeconomics which was the hot area—I must say that here the discipline of economics has certainly earned its keep.

And Andrew M. Kamarck, Director of the Economic Development Institute of the International Bank for Reconstruction and Development, has found not only that "the most useful part of economics is knowledge of what is fairly elementary" but that of special importance is the "relationship between price and supply and demand." "The use of prices as a technique of policy" is "extremely important"—but many "still haven't learned that most of the time it is much more effective to control the economy through price incentives than it is through highly complicated administrative mechanisms."

"Career" economists in government may critically ascribe various characteristics to academic economists. For some, the academician naïvely plays too simple an analytical game to be useful; for others, the best campus work is not distinguishable from government work; and in still another view, government analytics are superior, not only in operational realism and relevance but in formal innovation. Lederer finds that academicians commonly have "an oversimplified view of the world and the problems"; "academic economists tend to neglect" complications stemming from market structure, inventory accumulations, adjustment costs and time, substitutions for price changes in market corrections, substitution of international negotiations for competitive actions:

...so what they are advocating and...saying is sometimes so far removed from what can be realistically considered by a person who has to take into account market realities and political repercussions that they can become pretty useless. ... Many in the academic profession have gotten to be too specialized in little, abstract problems.

Actually, it is doubtful that “analysts in government have a better economic theory,” but “they play better by ear,” with a finer regard for “the political and other realities.” Anthony M. Solomon, former Assistant Secretary of State for Economic Affairs, also gets “a little disgusted with academicians who come in and give us clichés out of textbook economics which have little relevance to the practical world.” But good economics is good economics, whether on the campus or in the government. And

the best work in analytical economics is work that leads squarely to possible solutions. ...most of the leading economists on the campuses are men who have much to offer in the way of large policy solutions, and that kind of analysis is always welcome here. ...there are many top economists on campuses who are also concerned with [our real problems of policy] and they are not working on them strictly on the basis of slide rules and econometric supply and demand projections, because if they are they are pretty damn silly and irrelevant. They are looking at exactly the same factors, or should be, that we are looking at.

Polak tells us that “the level at which the Fund has to operate is very close to the academics.” Indeed, on the most fundamental problems,

we are quite often ahead of the academic community. ...the Fund operates continuously at the margins of subjects, where the universities haven’t reached yet. ...we are the provider of some of the most interesting literature, and this has been so right from the start of the Fund.

Most of the interviewees were asked to comment on the description of governmental economists and economics which was presented in 1962 to the American Economic Association by Alain Enthoven, then in the Department of Defense. In describing the situation in the Pentagon, Enthoven summarized:

the tools of analysis that we...use are the simplest, most fundamental concepts of economic theory, combined with the simplest quantitative methods. The requirements for success in this line of work are a thorough understanding of and, if you like, belief in the relevance of such concepts as marginal products and costs in complex situations, combined with a good quantitative sense. The economic theory we are using is the theory most of us learned as sophomores.⁷

7. “Economic Analysis in the Department of Defense,” *American Economic Review* 53 (May 1963): 422.

No one seriously disputed the essence of this characterization of governmental economics work as done in the early 1960's. And few believed that the level of rigor and technical sophistication in economics (rather in contrast to the rapidly expanding—if not always satisfying—use of econometric techniques) had increased strikingly during the following decade. “I certainly agree that the most important thing that economists can contribute are these simple notions,” said McKean. And McCracken added:

the Council of Economic Advisers will certainly always want strong competence..., but it also will want people who understand that for the vast array of problems the actual analytical work, as Enthoven was pointing out there, will be at a fairly basic level.

A rather different view was provided by Cooper. While he largely agreed with Enthoven with respect to the early 1960's,

CEA under [Walter] Heller substantially upgraded the type of analysis that was introduced into government policy, e.g., potential output of economy, full employment budget. ... Heller put together a group that introduced a systematic, modern applied economic analysis into government decision-making. [And since then] things have changed a lot. All you have to do is look at the *Survey of Current Business* today or the *Federal Reserve Bulletin* and compare it to ten years ago to see the increase in sophistication of tools, in published analysis. There is just no question that the sophistication of the tools that were used was upgraded substantially during this period.

However, Andrew F. Brimmer while a Federal Reserve Board Governor found “lack of an explicit theory or conscious application of a theory” in the Board and in the Open Market Committee (nor has the research staff developed or adopted “an explicit theory,” although it has done elaborate model-building and useful computerizing):

The Committee has never been willing to give a systematic exposition of the theoretical basis of its work. Moreover, given the diversity of view on the Committee, I don't think it could agree to. So people can agree to act who cannot agree to an explanation.

This is not fundamentally a situation in which competing theories are confronted and weighed: there can be little “systematic debate” when a majority, “including some of the most strategically placed members on the Committee,” believe that an adequate theory does not exist.

Two related notes of caution were sounded several times. *First*, there are not many who have “a thorough understanding of and...belief in the relevance” of basic theory. Only a sophisticate is likely to make very productive use “in complex situations” of elemental analytics; “you have to believe in it,” says Johnson:

You’ve got to have confidence in it in the sense that you’ll stick to it. And you also have to be able to show that you understand it. ... Well, the people I have known who have been successful with this kind of advising were by no means just anybody off the street of economics, so to speak...they stuck to their line.

McCracken worries about the “tendency” among economists “to homogenize our personal value preferences and our analyses.” There are economists, Johnson agrees, who take policy stances primarily on grounds of ideology and political tactics. But

if people will take that attitude, that they won’t express elementary economics for fear that it will comfort...one political party rather than another, you really sold the game. So it’s not all that easy to find the people who can do economics at that level and really believe it. ...if you have a fairly sophisticated knowledge of the world, then you can use common sense.

And Cooper, despite seeing during the past ten years much increase in the sophistication of analytic techniques employed in government, basically concurs:

At the conceptual level, the basic tools with which we deal, not much is introduced between freshman economics and second-year graduate economics. Put that way, I would agree entirely that what is needed is a really thorough grasp of sophomore economics. But being thoroughly comfortable with using that particular set of tools is what’s really important. ...what is useful from a policy point of view is just clear thinking. ... It’s not terribly sophisticated stuff...once you’ve grasped what the concepts of economics are, they are simple. It’s just that most people haven’t mastered them.

Second, while the exigencies of the government job generally preclude systematic and prolonged thought, modeling, and testing, and while much of the immediate work consists of hurried and harried scribbling on the back of the proverbial envelope, the scribbling draws on intellectual capital accumulated over the preceding years. Little explicit use is made of the literature, but the content of

the quick answer reflects previous study; time does not permit much current innovative investigation, but yesterday's careful work guides today's judgment. Theodore Morgan, former CEA staff member and adviser to the government of Thailand, warns that

you ought to know more than you use...because you ought not to feel that you are at the edge of your resources and there might be something over that edge that you ought to know but you don't know.

Life with CEA, Weisbrod agrees,

was very chopped up, very diluted, never much time to think about anything, shifting gears from topic to topic, person to person many, many, many times a day...no time to think, no time to read, no time to talk about ideas. ...after a while, I discovered that I was simply saying the same things over and over again. ...the depletion of the mind goes on pretty rapidly, but...if there's enough there to begin with, then you can still be quite effective, I think...giving gut reactions...making snap judgments...but if you have enough capital to fall back on, you can make some sensible decisions, write sensible memos in a great hurry.

Ultimately, however, distractions and frustrations are joined by deterioration and exhaustion. Previously accumulated intellectual capital "you drew down very fast," Hansen reports, "because you did not have time to develop any more while you were there." Jackson had the same kind of experience:

I was using my intellectual capital up without time to reflect and think and read and keep current. I was using what I knew and had put together before I went there, and to me that spelled that one ought not to stay too long.

"You get obsolete very fast in government," Kindleberger agrees, "there isn't any doubt of that. You read telegrams instead of articles, and the wastage of obsolescence and depreciation of economists in government is a very serious problem." Bergsten

couldn't even begin to keep up reading in the literature in my own most narrowly conceived field, international monetary affairs,...let alone the whole of foreign economic policy for which I was responsible. [And that was the case with] all the other operational guys, too, some of whom had a bent, because of academic or quasi-academic backgrounds, to do long-range

thinking if time permitted, but they were on the same boat I was, just overwhelmed with operational stuff.

After a person has spent four years as a would-be analyst on the fly, Nutter testifies

whatever intellectual capital he had is drained, he is then reduced to the amorphous state of writing memos off the top of his head to other people who are replying...off the top of their head...—the echo effect—and so you have lost touch with reality altogether in the sense that you have had no time to keep abreast, you've had no time to study in depth, you've had no time to think clearly because of the constant pressure. The best contribution you could make at that point is to move out of there and let somebody else come in who is fresh.

Bator agrees that

after four years...one has had it. Fatigue is something that political scientists...have not really taken sufficiently into account—what happens to people when they are actually dead beat and don't yet know it and what then happens to governments.

After a year and half as a CEA member, Jacoby

was completely exhausted. The pressures are inconceivable. The President called on the Council for a procession of opinions on highly complex matters. ... And, of course, there never was time to do it as thoroughly as you would wish. You did have to do a certain amount of shooting from the hip, although when you are advising the President, you don't like to do that—it's dangerous.

Spanning both of the noted cautionary elaborations is the suggestion by Nutter that the economist may be advantaged in approaching a wide variety of policymaking problems—

not so much because of his sophisticated theory, but because of the process of thinking and of analysis to which he has become accustomed in his profession and the discipline associated with it, he has a tendency to be considerably more hard-headed in analyzing a problem, being able to get to the roots of it sometimes much more quickly than other people, and, in particular, he has a kind of conceptual framework into which he can place

problems that many other professions don't have. ...the primary usefulness is the mode of thinking, the frame of mind, the tough-mindedness, the concentration on the objective conditions that affect a problem, and the understanding that there is a system at work in which all these things are related and that you think of the whole.

Shultz agrees that

the person who has training as an economist, who is sensible, and who will talk in a language that is understandable to others has a big advantage in the government and can have a big impact. Because on the broad range of issues, the economist has a way of going about a problem and of organizing information and of identifying what is likely to be important. ...the person who has been in political life, perhaps he has this sort of instinct—sometimes he's right, sometimes wrong—that is good politics or it isn't good politics or something, but hardly ever can they explain why. Whereas the economist has a theory, and it can be helpful, particularly if you don't say you have a theory.

A central implication of that theory is the conception of mutual benefit to transactors and of social net gain. "One of the differences between economists and politicians," Tobin suggests, "is that politicians instinctively think that the economy is a zero-sum game, and maybe they feel more comfortable in a kind of brokerage function, whereas economists are at pains to explain that it's usually not a zero-sum game." Bator injects a warning into his generalization that economists can be unusually "well suited" for government work:

There are things that economics training and economic modes of thought bring that really are very, very helpful. There are some situations in which it can be debilitating...you become overimpressed by the machinery or never think yourself out of the particular definition of the problem that comes naturally to you, because you think in economizing terms and therefore may ignore a very important part of the problem that's just as real. ... By and large, the record of economists in the government, the senior jobs, is a very good one.

But does the judgment of the economist in government greatly matter? The nominal audience may reach as high as the President, but in actuality is anyone seriously listening? Aside from satisfying the analyst's own pride of workmanship, does it make much difference whether or not he does a good job? Evidently, no simple generalization will here suffice. The importance and the impact of the

economist's work vary considerably—or seem to the economists themselves to vary—from situation to situation.

Baldwin felt

this tremendous responsibility. You found the big guys just couldn't think through carefully every issue, and that once something came up, if you had what seemed to be a sensible bit of analysis on it and little memos showing some proof of something—maybe two or three pages, but kind of supporting your line of reasoning with the arguments and maybe a few little data—then they would accept this. ...suddenly these people are confronted with decisions, and they are dying to have advice, and they don't want to be made a jackass of, and if you have something to give them, they'll read it through. ...it does have an effect.

Roper offers a different interpretation. With few exceptions, no “single person can have a significant impact on major policy decisions,” for “one is not likely to reverse the opinion of the head of an agency who has had years of experience that reinforced his confidence in his judgment.” The staff economist is to “develop the best possible arguments” for his administrative superior, and most economists “will offer some counterargument” when the superior's position is deemed to be wrong. But this will not generally have much “impact...in changing policies on important matters.” Roper adds that the (few) research economists in government do earn their keep by bringing more “relevance” than do many academic workers “into the mainstream of economic research by virtue of being in an environment where they are forced to address real world problems.” But whether or not the work of a particular individual or even of a branch bank research staff in the Federal Reserve has a discernible feedback is typically hard to determine—a question of some importance with respect to staff morale and, therefore, to productivity. The staff economist in a Federal Reserve bank provides material to his research director, who briefs his president, who may be a member of the Open Market Committee. But the final decisionmaking is remote from the individual economist, he is unlikely to learn that his contribution carried weight and was recognized, and the rest of the world will never applaud. “Nobody, for example, at the *New York Times*...would be aware of who it was who caused whatever slight modification of existing policy occurred,” says Gies. “It was...decided by the Open Market Committee, and who knows what the hell it was that caused them to decide. So you rapidly lose identification as you proceed outside your department into the bank and then beyond.”

It would seem that there is room for contributions of economists to the improvement of governmental economic decisionmaking. Miller found that

“incredibly important decisions were being made with incredibly insufficient information by incredibly unanalytical people.” This is consistent with the suspicion of some senior economists that their contributions typically are swamped by other policy considerations. Consider Edward L. Allen, formerly with the Department of Defense and the Central Intelligence Agency, and then Deputy Assistant Secretary of Commerce for International Economic Research and Analysis:

It has always seemed to me that when we get engaged in [international] negotiations...that the kinds of factors considered are pragmatic. There is no one really concerned about the niceties of international trade adjustment. ... There is great attention paid to political and security considerations which, rightly or wrongly, have proved to be overriding in almost all instances up to date. I'm not sure that these negotiators would understand the subtleties of sophisticated economic analysis, since they don't seem to understand the basic numbers of the balance of payments, to begin with.

Notably in the case of the CEA, deliberate efforts have been made to enhance the status of economic advisers in government. Lampman points out that the CEA

was a much less established institution in 1961 than we think of it now. ...[it] was communicated to us by Walter Heller that we were on the frontiers of developing important political relationships for the professional economist at the level of the Presidency. [But in Lampman's view] approaching the close of the Kennedy Administration, the morale in the Council was quite low. The feeling was that we hadn't really made any impact either with the President or, more importantly, through him on the country...we'd had impact on some speeches; we had improved the quality of economics in the Presidency in some ways, but it was a very marginal impact.

To the extent that the influence of the economist in government has fallen short of either what was desired or what was anticipated, there are different explanations of the disappointment or the surprise. In the area of economic development, Solomon alleges limited policy relevance of the literature. Beyond quite obvious economic considerations, “the whole job” of devising and implementing development policy “falls more into...diplomacy and common sense and rudimentary concepts of fairness and quid pro quos, and the amount of advice you can get from the economists...on the campuses is very, very minimal.” And Kamarck doubts “very much if anybody in the [World] Bank reads most of

the stuff in the journals. ... Most of it deals with unreal situations—situations that never existed and never will exist. ...an awful lot of it is really scholasticism.” (Kamarck complains, too, about “giving more sophisticated treatment to the data than the data really deserve.” Many economists, some in the Bank, indulge in the “bad technique” of “pseudo-precision” and “fake precision.” Especially “on the macro level,” complex models are developed which “aren’t used for policy decisions, because the data just aren’t that good.”) Gordon Tullock, at one time a Foreign Service officer, finds a disconcerting lack of correspondence in recent years between, on the one hand, a substantial number of highly able and distinguished economists available to government and, on the other hand, the disappointing quality of policy. Poor policy stems in part, to be sure, from ignorance: “...on many of the specific questions on which economists are asked to advise, I don’t think they know the right answer.” But bad policy can stem also from failure of the advisee to follow guidance. And there is failure, too, on the part of the economics fraternity:

Economics is rapidly moving into...a highly escapist phase, in which the average economist works on some subject which either has no relevance to the real world at all—and therefore doesn’t lead him into squabbles with his friends in the Department of English—or, if it has relevance to the real world, it is a very narrow area, and outside that very narrow area where he’s working, he simply agrees with his friends in the Department of English as to what is good policy.

But Robert D. Tollison, after observing governmental regulatory policies from the vantage point of the CEA staff, laments the bureaucratic reluctance “to apply...even simple price theory”:

We were told...you can’t make policy based on economic theory. ... It was clear they weren’t willing to listen to an analytical argument. ... You can go all the way through the regulatory aspects of the government, and you just see that the basic choices are getting filtered out by some other mechanisms than what I would call economic sense. And the role of the economist there is a stopgap—keep them from doing something completely dumb, just completely dumb.

Beyond the avoidance of doing something completely dumb, the objective seems to be to please the regulated industry and thereby to please congressmen and cabinet members. To be sure, Nutter agrees, “decisions are not made by economists, they are made by the political authorities.” And those economists who, through esoteric technique, try “to add this supposed sophistication...are

just putting a façade on a structure that is built on other considerations.” Those considerations stem from “the very process of the bureaucracy...the whole interplay of our governmental process.” From similar perspective, McKean is

pessimistic in general about the economist’s role or the role of economics in government. ... Wherever you find somebody having made an economic analysis which seems to result in implementation of a government policy, you rake around among the leaves, and I think you find usually that the government agencies, or officials who implemented it, had reached that conclusion for other reasons—it was in their interest. ... The things that shape decisions in government are the pressures emanating from the bargaining amongst officials, given the nature of the political process, and if you want to change the way those decisions are made, I don’t think just sheer brilliant economic analyses are likely to do very much by themselves.

Support is provided by W. Michael Blumenthal, former Deputy Assistant Secretary of State, who was chief U.S. negotiator during the Kennedy Round as ambassador in Geneva. The only economists likely to have significant impact in governmental decisionmaking, he contends, are “the ones who understand who makes the decisions, what determines how a decision is made, and how you influence the decisionmaking process in this jungle.” The analytic specialist can make a limited, background contribution, but “the one who really has an impact also has the capacity to have a sense of power and to understand how in the real world you apply this in a compromising way, in a less than perfect way.”

V

One might suppose, and certainly hope, that these economists are prepared to draw fruitfully on their experience in proposing ways to do a better job of policy advising. Most of them are very humble about the effectiveness and the worth of economic analyses in past and current policymaking, and doubtless all would like to have the job done better. But how? The answers were few, often either too delimited or too grandiose in scope to be immediately interesting, and generally given with little confidence.

Several explicitly rejected the idea of allotting more money to the hiring of more economists, and there were only a few calls for larger budgets. The view of Allen is widely representative: “I don’t think that there is any enormous need for more people. There are plenty of people around in the research business.” Specifically, McCracken “would insist very strongly on the importance of keeping the Council small. ...you want a small, high-powered, fairly high-paid staff, and it

will tend inevitably to be all chiefs and few Indians.” If it were made appreciably larger, “then you’ve got to have department heads and the whole structure, and it would add enormously to its viscosity.” In much the same language, Ackley agrees that the CEA staff is sufficiently small that it “really required no organization...nobody supervised anybody else. Once you get much larger..., you would have to set up some kind of hierarchy and people reporting to people who report to other people.” From the viewpoint of the CEA staff member, Willett found it attractive to have no intermediaries between the staff and the three-man Council, partly because of resulting status. In the outside bureaucracy, “there was a degree of respect accorded to the senior staff economist because of this direct access.”

Jacoby emphasizes that the effective capability of the CEA is not adequately indicated by its own staff alone, for “we had at our beck and call the entire economic resources of the government.” But while manpower, therefore, did not generally pose a problem, there were “terrible gaps in the data base...basic deficiencies in the whole economic information system.” (Wilson E. Schmidt, at one point Deputy Assistant Secretary of the Treasury, believes that “in the international field, the greatest area for investment...in terms of social return is improving the quality of the data. ... The econometric techniques, the computer facilities have gotten way ahead of the data.” Intergovernmental disputes often are “reduced to debates over the numbers.” But adequate budgetary support for the long process of improving the quality of data is unlikely, for “the policy-planning horizon in the U.S. government is much shorter than the feasibility horizon for getting something done.”) Even those few, in several agencies, calling for additional staff were pessimistic that any increased manpower would be long permitted to provide general, basic, long-run analyses. Evidently, grubby, technical, short-term work generally expands to absorb available research resources.

Another considered improvement is more general adoption of the procedure of the Council of Economic Advisers, in which the bulk of the research personnel is on the staff for only one or two years. This short-term, in-and-out turnover calls for a given individual to engage in a burst of relatively uninhibited activity and then to leave before enthusiasm and energy have greatly lessened and intellectual capital has obsolesced or atrophied. This conception of personnel strategy does have its attractiveness, but there are also costs. Most notably, the costs are of virginal innocence, for it takes time—often, it seems a good many months—for most people to learn of data sources, routines, institutional parameters, and “skeletons in the closet” (Theodore R. Gates) and in general to reach maximum effectiveness in the new situation. Gates while in the Office of Special Trade Representative drew heavily on people with the Council and believes that their usefulness stems, in part, from “not having to worry about

future career complications from having broken up too much china”—but, in many cases, it was six months or perhaps even longer before they became really effective.” Shultz finds that the short-term academic visitor to government

has two adjustments, in a sense. First, he is working as part of an organization, and he is unaccustomed to doing that, where what you work on today is what needs to get done and not what you decide you are going to work on. Then, second, there is a lot to know about the flow of information and institutional arrangements in the government that takes a while for anybody to catch on to. So a person spends some time just getting up to speed, and, if it’s only a year, he is really just at his most useful when he leaves.

By contrast, Miller feels that “picking up the institutional information is comparatively easy,” and he regrets the common “prejudice” in government that “if you don’t know the institutional matters, then you can’t know anything.”

A possible way to gain some of the advantages of the quick in-and-out process while minimizing some of the costs is to make greater use of outside individual consultants and of specialized research organizations. According to Johnson,

one of the great strengths of economic policy in this country has been institutions like the Brookings Institution plus the willingness of other foundations to support research on policy-oriented issues without having the commitment to make the policy. One of the major drawbacks in other countries is there is no other support outside government for research on policy issues, and this means that the research is essentially problem-oriented and biased toward the politically acceptable solution. ...there should be some sort of production of documents in thought which is not devoted to trying to prove a point...informed research without immediate policy limitations.

But there always remain the problems of relevance and applicability to government policy:

It’s like industrial research labs are always after a basic research lab somewhere else where they can do real science. And this is a myth, in a way, as to how far you can do that: if you get too basic, you are not any use to the company; and, the same way, if government research got to be too basic, it wouldn’t be much use to governments.

The general feeling among the interviewees apparently is that additional utilization of such specialized research organizations is likely to be significantly valuable only up to a point soon, even if not yet, reached. At any rate, a specific organization may have a finite, even quite brief optimal life, McKean speculates. For a time, the agency has a freshness and eagerness and a sense of independence. But it may be “almost inevitable in the political process that if someone is funding a research organization...it is very difficult for the officials who monitor the organization to continue indefinitely to let it have a free hand.” The officials become restless and begin to press for more immediately applicable research and for supportive analyses yielding desired answers—so we probably should “deliberately kill off the organization after a while and start a new one.”

Support for both Johnson and McKean can be found in the view of Nutter, who is enthusiastic about the possibilities in research institutes, “where there is an opportunity for thinking ahead and talking in terms of broad policy...away from the pressures,” but who also warns against “the captive institute,” for “to imagine that a kept kind of institute, which depended almost solely for its existence on your largesse, was going to be a source of independent, objective, candid advice is a little ridiculous.” The warning is applicable, also, to individual consultants, Jackson suggests. With “too much attention to the bureaucratic maneuverings by everyone,...there tends to be a selection of outside advisers and economists partly with a view to whether they are supporting your particular objectives in the maneuvering.” DeVany finds two related problems in dealing with research consultants. Not only is it often the case that “the contractor’s wants are revealed in the selection of the group itself to do the work”—“it’s known which” shops tend to give which kinds of results—but in addition the individual researcher’s sense of convenience tends to yield overcautious efforts; “research is risky,” and commonly analysts will “bite off just a big enough piece to make it interesting but not so big that they really have to come up with novel methods or ways of finding the answers...and they know what they could do within a certain period of time, and...that is always going to inhibit creative or risky or path-breaking research.”

Another controversial suggestion for improvement of governmental analytics is to increase appropriate competition among the analysts. Some competition has consisted of interagency “snow jobs” for the intimidation of others in debate instead of the elucidations of issues and the facilitation of thought. It has been suggested, for example that the Treasury has, upon occasion, sent economic and financial specialists to deal in conference with the historical and political generalists of the State Department, with the technical experts then blowing the opposition out of the water. (Solomon, of State, doubts that Treasury is “silly enough” to pursue “a very obvious...policy of sabotage.” Still, “monetary matters are clearly in the action area of the Treasury; they have the ball. You need a

very brilliant man in the field to have sufficient weight to keep Treasury from going down roads that...are inimical to our foreign policy in the broader sense.”) But this is not necessarily or inevitably the nature of competition. In the world of thought and analysis, as in the general marketplace, the consumer is likely to be helped by more rather than fewer options and sources, provided by suppliers who are obliged to approximate their best efforts in order to prosper. Cooper interprets some of the interagency conflict as

improving U.S. policy overall by factoring in a number of different points of view, rather than letting the line agency whose responsibility a given area is to dominate the whole of that policy. Line agencies develop blinders, often very confining blinders, which partly arise from their own limited perspective, but partly arise, it must be said, from the longevity of their own personnel.

DeVany notes:

one group of analysts will come up with the answer that somebody wanted, but there will always be someone out there chipping away...offering results on the other side...you have maybe even a genuine debate. ... It's that process, maybe the only process, that keeps people honest or helps to have better answers or the truth emerge.

Thus, Tullock would never award “a research contract; you should always have at the very least two” independent studies—and “offer to each of them the possibility of criticizing the other.” And Norman V. Breckner, formerly of the Center for Naval Analysis and now with the Federal Energy Administration, finds “no substitute for competition”—have a research job undertaken by “a number of different sorts of groups, individual firms, if you like—just like the textbook says.” McKean, too, hopes that, with rival agencies and rival claims and criticisms of one another, a more complete and more accurate picture may evolve. “You get more truth out of having three different biased ‘lies’ coming out then you do out of having one ‘lie’ which you no longer have any criticism of.”

VI

In speaking with economists who are or have been in government, one obtains a picture and gains an impression which are sobering. The government economist typically is not a highly independent researcher and analyst, free first to pick many of his subjects and entirely free then to broadcast generally the results

of his labors. He is a member of an organization, commonly devoting the bulk of his time to topics specified from on high—the specification often being enunciated only a few days (or, indeed, hours) before the deadline; conscious of a prevailing orientation and purpose on the part of those administrative superiors who constitute his main audience; conscious, also, that the decisionmakers he is more or less directly advising are themselves subject to constraints of worldly realism and political feasibility—along with innocence in the area of economic analysis; bringing to his task an accumulated intellectual capital which, even if impressive at the outset of his government work, may not thereafter be greatly enlarged or even well maintained; having more or less available a corpus of theory and an arsenal of techniques which, for all their elegance, refinement, and academic glamour, are often too time-consuming for purposes of shooting from the hip and too esoteric for the data, the colleagues, and the audience; and having little reason to suppose that his work has significant impact in the making of policy, being largely confined to support of programs and procedures determined earlier and by others and for which he may have only modest sympathy.

A small suggestion of a moral from this may be permissible. If the activity and the contribution of the economist in government is at all well represented in this survey, might we suspect that social welfare could be enhanced by “minimizing” the number and the scope of governmental activities which normally call for the discretionary policymaking services of economists? The economist knows so little, relative to the complexities of the world, and is in a position to contribute so marginally in policymaking practice, that it strikes some of us as unrefreshingly simple to ask him to do more than—if, indeed, as, much as—he is now doing in government. (But such inadequacies are not unique to economists. And, of course, to minimize and to circumscribe the role of economists in government is not the same as delimiting the role of government in economic activity, for economic policy can be made—and made as badly as it has been—without economists.)

It is alleged that there is a persistent “disequilibrium” in the sense that as economists grow more competent in dealing with policy problems, the questions asked are made broader in scope and more complex. Whether the economists are good or bad, courageous and independent or cowardly and malleable, effectively or poorly utilized at the moment, any community, Johnson suggests, tends strongly to press its government—and the government, in turn, presses its economists—to levels of incompetence. Frustratingly and disconcertingly, more is demanded at any given time than can be delivered—or could be delivered even under circumstances which the frail and beleaguered government economist might consider optimal. “The political art always is a question of working within an environment and then trying to do better with it than in fact can be done”

—“attempt to squeeze more out of the tools and the people than is in them.” Those in government “are trying to *use* more than we [economists] can supply,” he adds. “One has to distinguish between the attempt to *use* economists and an attempt to *absorb* what economists have to say.” It would appear, then, that “the government is always going to be a disheartening game for the honest economist.”

About the Author



William R. Allen has labored primarily in the scholarly fields of international economics, monetary economics, and the history of economic theory. He has educated the public through his popular writings and radio work as “the Midnight Economist.” After serving in the Army Air Corps, he obtained his A.B. (1948) from Cornell College and Ph.D. (1953) from Duke University. He taught at Washington University prior to joining the UCLA faculty in 1952. Like the economists interviewed in the present paper, he has worked for government as consultant to the Balance of Payments Division of the Department of Commerce. He has received teaching awards from the UCLA Alumni Association, the Western Economic Association, and the Freedoms Foundation at Valley Forge. He has been Vice President and President of the Western Economic Association, Vice President of the History of Economics Society, and Vice President and a member of the Executive Committee of the Southern Economic Association. Among his many publications is his *University Economics*, coauthored with Armen Alchian. From 1978 to 1992 more than 200 radio stations carried daily broadcasts of “**the Midnight Economist**” written and delivered by Allen. He has been Chair of the UCLA Department of Economics, President of the International Institute for Economic Research, Vice President of the Institute for Contemporary Studies, and Associate of the Reason Foundation.

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