

ECONOMISTS' ROLE IN GOVERNMENT AT RISK

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**Introduction**

In "The Fire of Truth: A Remembrance of Law and Economics at Chicago, 1932-1970," Edmund W. Kitch (1983) (a lawyer by profession) wrote:

There is great legitimacy given to the idea that the government is going to be doing these things [make public policy] and we in the law schools should try to help the government do it right.

Likewise, economists should try to help government do it right. With this objective in mind, I will seek to examine the condition in which economics today finds itself, specifically, why its present status may impede it in effectively assisting government decisionmaking.

I will argue that for the economic role of government to be effectively carried out, it is important that decisionmakers have knowledge of reality and are aware of values. This condition is in part a matter of the information provided decisionmakers by economists. Undue mathematization and ideological biases can impede the role of economists. In recent years the work of economists and the language they use has moved the discipline into a corner. Perhaps few economists realize that this has been happening, and even fewer had intended it to happen. Two prevailing phenomena are responsible for this state of affairs -- an excessive reliance on mathematics, and politicization of economic research. These common practices and

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trends, some originally designed to advance economics as a social science, have had the undesirable effect of exposing economics to the risk of being of little use to decisionmakers in and out of government.

Examining the dangers facing economics in the late 1980s unfortunately involves, to some extent, criticism of economics and its practitioners. While I am not attracted to the role of a critic, I am following an admonition by Jacques Barzun (1978): "What all the professions need today is critics from inside, men who know what the conditions are, and also the arguments and excuses, and in a full sweep over the field can offer their fellow practitioners a new vision of the profession as an institution". I do not presume to be able to take "a full sweep over the field", but I hope to offer some insight.

First, however, I would like to offer a historical review of how philosophers and social thinkers have viewed the development of political philosophy and social and economic policies as well as their implementation.

#### Brief Historical Review

Plato thought that a group of sages could discover correct solutions to the transcending social problems of the day; he even wanted to give an elite of sages the responsibility to implement the solutions. Philosophers that followed him have been less ambitious. Still they have been pondering on how best to advance the systematic examination of the relations of human beings with each other. They have engaged in the moral inquiry of how life should be lived and have offered beliefs of how groups and nations should interact. In so doing, they have sought to develop what we have come to call

political philosophy. In this endeavor they cannot discover the single truth about human, national and societal relations, because any social philosophy is rooted in values about which disagreements abound.

Frustrated that they could not arrive at a single political philosophy and therefore solution to a given problem area, they sought to become more scientific and objective in the manner in which they conducted intellectual inquiries. Duly impressed by the rapid strides made by the natural sciences and the success of their methods, often based on mathematical techniques, they began to emulate these. Their hope was to establish similar irrefutable laws in the realm of human affairs. They thought to introduce the methods developed by natural science into the social sciences with the objective to formulate hypotheses, test them (perhaps even by experiments), and deduce universal principles and insights from them. In this manner, it was hoped, intellectual confusion could be ended, prejudice eliminated, and great progress toward the solution of social problems made.

For a while the world was seen through rose-colored glasses -- as in the natural sciences, all significant social questions must have one true answer; there exists a dependable path toward the discovery of these truths; and these true answers are compatible with one another and form a single whole.

In the 19th century, some thinkers including Hegel and Marx questioned the power of research methods and man's ability to derive a single, timeless truth. They realized the importance of ever-changing conditions, with human horizons altering over time and people, even the best intentioned ones, espousing different values and objectives.

Economists in the 20th century, and particularly since World War II, recognized these problems. In North America, the United Kingdom and Scandinavia, in particular, they worked diligently to make economics a rigorous science. They reached agreement on a number of fundamental axioms from which major economic propositions can be derived. The four major axioms of economics are --

Axiom 1 - Individuals' wants are limitless whereas resources are scarce.

Axiom 2 - Individuals are rational in the sense that their decision-making process is consistent with their aims.

Axiom 3 - Individuals seek to maximize self-interest.

Axiom 4 - It is possible to separate conceptually the individual from his environment.

Using these axioms, the aim of economics as a science has been to derive propositions about optimal actions of individuals and their coalitions in their concern with efficiency and equity, as they respond to the environment in which they operate. With the aid of these propositions, it then has become possible to explain economic phenomena, point to existing deficiencies in social regulations, and offer alternatives with the possibility of evaluating their merits. Empirical methods, especially econometric ones, have helped test the propositions thus derived.

Altogether, economists have worked hard at developing deductive economic theories as well as econometric methods for their empirical testing in the hope of perfecting a powerful and systematic body of intellectual inquiry. One purpose, and in my view a major one, has

been to assist decisionmakers in and out of government to carry out their role in the economic sphere. Economists have done so for quite some time, perhaps more in the United States than in many other Western countries, and on all three levels of government. On the federal level, for example, the creation of the Bureau of the Budget (later renamed Office of Management and Budget) and of the President's Council of Economic Advisors in the executive branch, and of the Joint Economic Committee of Congress in the legislative branch, are indicative of interest in economic expertise.

However, it would be wrong to consider the role of economists in government only in terms of their actual service in government on a full time or consultative basis. Although Lord Maynard Keynes, for example, served in the British government, his ideas and theories probably affected governments more than his physical presence. The same holds for many economists, particularly the Nobel Laureates.

#### The Role of Economists

Economists and economics play a variety of roles in assisting governments. They cover the spectrum from mundane, routine operations to high level advice to those who make major economic decisions. In connection with the latter, which is the concern of this paper, one of the most powerful models is for economists to help improve the manner in which decisionmakers first think about fundamental goals and then make informed choices among the more attractive alternatives. In relation to government, this means that economists should 1) provide systematic information with regard to possible goals, 2) identify the more attractive alternative steps to achieve them, and 3) attempt to

quantify their likely gains and losses, as well as distribution of the latter among relevant segments of the population and economy. Having produced this information in a rigorous and comprehensive manner as well as in generally comprehensible language, economists should step back and leave it up to elected policymakers to choose what they consider to be the best, politically acceptable, alternative.

This model for economists' role in government decisionmaking requires that they act qua as scientists and not ideologues or advocates. The latter role is open to them as citizens and voters. Mixing up these two roles can be damaging. But, as scientists, they must also guard against using methodologies and assumptions that are very far removed from reality, and against speaking in a language, e.g., mathematics, which leaves a wide gulf between them and their patrons, be they government officials or the public.

#### The Present Record

Monitoring and evaluating the state of economics is not an exact science. Nevertheless, fully aware of the magnitude of the task, we will attempt a first cut. We find significant evidence that the credibility of economists and their usefulness to their patrons are imperilled by two developments in the profession: its emphasis on mathematics and its compromises with scholarly objectivity.

#### Overly Mathematical

The recent trend of economics has been to place great stock in the mathematical treatment of economic issues. This focus has all too frequently forced economists to incorporate into their work restrictive assumptions which are highly unrealistic. As a consequence, their work

has been far removed from the real economic world which is so very complex and ever-changing. This fact has reduced the applicability of research results and usefulness of economists to decisionmakers.

It is very demanding to examine masses of economic articles about the extent to which they use mathematics and realism in their assumptions. We can benefit from work done by Grubel and Boland (1986), who reviewed 15 economic journals of great diversity for the period 1950-1983. They found in the most venerable and highly regarded American Economic Review, the Journal of Political Economy and the Quarterly Journal of Economics, as well as the more recently founded Journal of Monetary Economics and the Canadian Journal of Economics, that about 50% of all articles in the early 1980s were mathematical treatises. As was to be expected, the percentage was even higher, i.e., 85-100%, in such specialized journals as the Journal of Economic Theory and the Review of Economic Studies.

Separately we have surveyed the 1983-87 volumes of the American Economic Review, focusing on it as the official publication of the main professional association in the United States and the most widely cited and prestigious economics publication in the world. Our concern was not only with the use of equations in general and mathematical economics in particular, but also with the econometric testing of mathematical models. Our findings of the 263 articles published in the American Economic Review during 1983-87 (we did not cover shorter Papers and Proceedings volumes) can be summarized as follows:

All but 16, i.e., a total of 94% of the articles, had some mathematical equations. (The 16 non-mathematical articles included



most of the annual presidential addresses.) More significantly, 129 articles, or about half, were in the nature of mathematical economics, i.e., presented mathematical models without any empirical testing. 89 articles, or about a third, were econometric. In conclusion, there is little doubt that articles recently published in the lead journal of the American Economic Association have been highly mathematical.

We are not the first to worry about economists' heavy reliance on mathematics. A strong admonition to mend their ways came from John Maynard Keynes (1936),

Too large a proportion of recent "mathematical" economics are mere concoctions, as imprecise as the initial assumptions they rest on, which allow the author to lose sight of the complexities and interdependencies of the real world in a maze of pretensions and unhelpful symbols.

More recently, Wassily Leontief (1971) warned economists in his 1970 presidential address that economics has taken a wrong turn:

... an uneasy feeling about the present state of our discipline has been growing. ... anyone capable of learning elementary, or preferably advanced calculus and algebra, and acquiring acquaintance with the specialized terminology of economics can set himself up as a theorist. Uncritical enthusiasm for mathematical formulation tends often to conceal the ephemeral substantive content of the arguments behind the formidable front of algebraic signs.

Leontief (1982) has continued this theme in a letter to Science,

... professional economic journals are filled with mathematical formulas leading the reader from sets of more or less plausible but entirely arbitrary assumptions to precisely stated but irrelevant theoretical conclusions ...

Year after year economic theorists continue to produce scores of mathematical models and to explore in great detail their formal properties; and the econometricians fit algebraic functions of all possible shapes to essentially the same sets of data without being able to advance in any perceptible way, a systematic understanding of the structure and the operations of a real economic system.

An equally critical concern has been expressed by Frank H. Hahn (1984), a former president of the Econometric Society and himself a highly respected mathematical economist,

The achievements of economic theory in the last two decades are both impressive and in many ways beautiful. But it cannot be denied that there is something scandalous in the spectacle of so many people refining the analysis of economic states which they give no reason to suppose will ever, or have ever, come about. ... It is an unsatisfactory and slightly dishonest state of affairs.

While these critical views on economics in general are expressed by thoughtful insiders, policymakers too have begun to express concern, for example in relation to such specialized fields as urban economics. In conversations I have heard a Secretary of the U.S. Department of Housing and Urban Development express great dissatisfaction with what economists have contributed to effective policy formulation. And the Minister for Housing and Construction of the United Kingdom has expressed similar misgivings to me.

#### Wanting Scholarly Objectivity

We would hope that carefully crafted economic theories and models as well as their implementation with the aid of econometric methods would meet the most stringent test of intellectual integrity. This is a requirement stipulated by the unique circumstances of social science research which can never be totally insulated from the values of investigators. It is a fact that many scholars have deep-seated, often unconsciously held, beliefs that can affect the outcome of their research. This can happen by influencing their choice of questions to be researched and the angle of the approach used. Even the most objective researcher is faced by these circumstances in the form of

unexamined beliefs. These widely recognized circumstances make it essential that economists make an all-out effort to conduct their research with the greatest possible objectivity.

Since the 1960s, however, ideology-driven economic research appears to have gained in importance in the United States. It has been accompanied by ideological polarization. Such polarization of economists is relatively new for the United States, though it has existed in the United Kingdom for many years. For example, the Faculty of Economics and Political Science as well as the Department of Applied Economics at Cambridge University have long been known as favoring strong government intervention. Some of its members, e.g., the late Nicholas Kaldor, worked closely with the Labor Party and significantly influenced its economic policies. At the same time, the Economics Department of York University has been known as laissez faire champions, as has the Institute of Economic Affairs, with its Arthur Seldon seeking to shape economic policymaking of the Conservative Party.

In the United States since the 1960s, ideological influences have also become more pervasive. While it is difficult to pinpoint the date when this trend began, the role of research institutes, often referred to as think tanks, is a good indication. Thus in the mid-1960s, with the active support of the Johnson Administration, the Urban Institute was established, with a liberal orientation. During the Nixon Administration such existing research institutions as the American Enterprise Institute and the Hoover Institution were revitalized and given significantly larger resources, and their

research results began to be widely disseminated in such major publications as the Wall Street Journal. Later, some new conservative think tanks were established, with the Heritage Foundation perhaps being the most important. Members of these think tanks have played a particularly important role in the economic policy formulation of the Reagan Administration, which their leaders not only admit, but of which some of them have even boasted.

University departments also appear to have become more divided along ideological lines. The Chicago school, with the subfield of Law and Economics at Chicago, is an excellent example. Its evolution and ideas are well documented in the Proceedings of a 1981 conference summarized in a 70 page article called "The Fire of Truth: A Remembrance of Law and Economics at Chicago, 1932-1970," (Edmund Kitch, 1983) and my review in the JAI Research Annual on Law and Policy Studies (Werner Hirsch and Unghwan Choi, forthcoming).

Attempts at quantifying the tendency of ideology to affect economic research are difficult, though not impossible. What is particularly demanding and hazardous is to seek to identify scholars who have a liberal or conservative philosophy, and to correlate this fact with the nature of their research findings.

In recognition of the difficulty of testing individuals for ideological bias, we have concentrated our inquiry on whether select scholarly journals publish mainly articles on a specific policy issue written from a particular angle and consistent with the Journal's ideological bent. We have selected an economic policy issue that continues to be the subject of much intellectual interest and economic

research, i.e., government regulation. Moreover, it is one of the policy issues which, in part, have been subjected to a survey of the attitude of economists in five countries, including the United States.

Bruno S. Frey et al. (1984) in the early 1980s surveyed more than 2,000 economists as to whether, in their views: 1) antitrust laws should be used vigorously to reduce monopoly power from its current level and

2) "consumer protection" laws generally reduce economic efficiency. The survey found a high level of consensus in favor of regulation. Specifically, in the 5 countries 48.9% generally favored vigorous use of monopoly laws, 37.3% did so with some provisions, and only 12.5% generally opposed it. The numbers in relation to the inefficiency of regulation were 13.6%, 23.6% and 61.4%, respectively. For the United States the monopoly numbers were 47.8%, 35.1% and 14.7%, and the regulation inefficiency numbers were 23.2%, 27.0% and 46.0%.

For our review, we have selected 2 journals. One is the Journal of Law and Economics which for many years has been edited by a distinguished economist and published by the University of Chicago. It is very closely associated with the Chicago School of Law and Economics which has pronounced views on government regulation of industry. Thus its disciples believe in the efficiency of free market exchange and call for removal of constraints to free trade. Toward this end they oppose regulations, particularly since, in their view, parties will attempt to circumvent legal restrictions which are inconsistent with the perceived self-interest.

The second journal surveyed is the prestigious Economic Journal, published for many years at Cambridge University, and alleged to favor strong government intervention, including regulation of the workings of the economy.

There can be little doubt that the Chicago School has a clearcut position opposing regulation. But should the Journal only publish articles whose conclusions, particularly empirically derived ones, are supportive of this position? We reviewed all articles published in the Journal of Law and Economics between 1982 and 1987. We found a very large percent of its articles addressing regulation. While it is not always easy to classify such articles, we made a sincere effort to do so fairly. Of these 45 articles, 30, or 67 percent reached conclusions inimical to regulation, 3, or 7 percent were favorable to regulation and 12, or 27 percent, were neutral.

When we made a similar analysis of the 1980-1986 articles in the Economic Journal, whose editors appear to have a more positive attitude toward government regulation, quite different results were obtained: 16 of its articles were related to regulation, with 6, or 38 percent, reaching conclusions favorable, 4, or 25 percent unfavorable and, 6, or 38 percent, neutral to regulation. While the tenor of the Economic Journal articles is somewhat more balanced than that of the Journal of Law and Economics, the thrust of the two appear to be in opposing directions.

#### **SOME CONCLUDING THOUGHTS**

Economics in the past has been credited with being one of the more rigorous, powerful "scientific" social sciences. The reasons, no

doubt, are that its concerns are more readily quantified than those of other social sciences, and that able investigators have excelled in effectively advancing the field. We have detected, however, two trends of recent vintage that can spell trouble -- economists appear more and more to engage in research which 1) tends to be overly mathematical, producing results far removed from real life and presented in a manner all too often inaccessible to most public decisionmakers, and 2) tends to suffer from a lack of scholarly objectivity, with the result that much economic research tends to be ideology-driven.

Under these circumstances government decisionmakers who should be thinking about fundamental goals and need to make difficult choices towards their achievement may not get from economists the help required to raise the quality of their decisions. In the presence of ideological polarization, liberal officials will tend to hire for advice liberal economists and conservative officials will hire conservative economists. The danger is that under these conditions, economists will often merely reconfirm their patrons' biases and/or be used as window dressing. I think Flora Lewis (1987) had it right when she wrote,

Politicians will be politicians. But that's not a reason why scientists shouldn't have to be scientists, during working hours. Off duty, they've a right to personal views like anybody else, but they owe it to their professionalism to make the distinction.

Matters are exacerbated by the fact that today economics is too mathematical and, as Simon Kuznets is reported to have said on the occasion of his 80th birthday, "too formal, too divorced from the real world" (Robert Fogel, 1987). Moreover, Kuznets had become

impatient with economists who become infatuated with elegance and forget that the aim of theory was to promote the search for tested knowledge about economic behavior. There was a limit to how far theory in economics could become separated from the product which the patrons of economics -- the policymakers -- demand of the discipline.

Should these two trends continue, economists will increasingly be forced into a position in which they can rightly be accused of lacking scholarly integrity, of being of little use to serious minded government officials bent on raising the level of their decisionmaking capability, and of possibly becoming altogether irrelevant. I would hope that we could begin to reverse this unfortunate trend which threatens to put economics at risk.



## NOTES

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