ECONOMISTS AS ADVISERS TO POLITICIANS AND TO SOCIETY

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ECONOMISTS usually analyze and discuss unemployment with a cool detachment, having little personal fear of suffering any. Therefore it is surprising to read O’Flaherty and Bhagwati (1997) raise the specter that newly flourishing research on political economy and the positive theory of economic policy will put normative economic policy advisers out of work. If a political “game” produces policies as preordained equilibria, they argue, there are no degrees of freedom for normative intervention. Therefore there is no room for a policymaker to make any choices, and no scope for an economist to give advice about policy choices. They call this the “determinacy paradox,” by analogy with famous philosophical paradoxes to do with free will versus determinism, like Newcomb’s Paradox. Note the nature and the sweeping extent of their claim: they are not saying that in a politicized world economic advisers will give biased or bad advice, but that all normative advice will be impossible as a matter of pure logical necessity.

They do find a niche – advice directed at society as a whole and for the long run rather than at the policy-makers of the day, in the tradition of Adam Smith, Marx, and Keynes – which they claim economists can continue to occupy.

I will argue that O’Flaherty and Bhagwati’s interpretation of determinism of the political process is incorrect. Economists who want to give normative advice to politicians will continue to find enough opportunities. This work may not be as elevated as writing for the ages, but it is more relevant for the vast majority of the profession, and more likely to have some immediate impact. But to achieve this aim, the advice must be based on reasoning that includes the political process; it must use game theory and political analysis as well as conventional economic analysis.

O’Flaherty and Bhagwati make their argument for the “determinacy paradox” with number of analogies, of which the one they use frequently is that in a fully determined world, one has no freedom to choose what one will eat for breakfast. In my view that is a false parallel and a false paradox. The parallel is false because the economic world is large enough and competitive enough that any one person’s choice of breakfast food makes a negligible difference to the market outcomes, whereas in the political world many players are large enough for their actions to make a difference. The paradox is false because a game yields an equilibrium outcome only when all players choose their equilibrium strategies. Far from removing the freedom of choice, game theory burdens
each player with a serious—sometimes daunting—task of calculation followed by the task of choice: each must “solve” the game for the equilibrium choices of all players, and then perform his or her own assigned action. Therefore a determinate model of the world does not negate each player’s freedom of choice; on the contrary, it depends crucially on this choice being made consciously and correctly. A social scientist who understands the model well can have an important role as an adviser to the politician who has to play the game but may not have the time or the inclination to study it and compute the equilibrium strategy singlehandedly.

Such advising need not be a one-way street. A genuine collaboration between an economist who brings an outsider’s perspective and some analytical expertise, and a politician who has an insider’s instinctive understanding of many of the subtleties of the game, may succeed where either singly would have failed.

Peter Kenen tells the story of his testimony before the US Congress’s Joint Economic Committee at its hearing on the 1962 Trade Expansion Act. Representative Hale Boggs (D, LA) asked him: “Do you not agree, Professor, that to succeed in today’s highly competitive world economy the US must export more, and that if we are to persuade other countries to buy more of our goods, we must agree to buy some more of theirs?” Kenen, being a good international trade theorist, started to protest that gains from trade are mutual, and would have gone on to say that buying something more cheaply from abroad benefits our own consumers, therefore trade negotiation is not a mercantilist bargain of giving grudging concessions to import more for the sake of being able to export more. Boggs saw what was coming, quickly interrupted, covered his own microphone with his hand, and whispered, “Sonny, I am on your side. Say yes.” Boggs showed an instinctive understanding of how to play the game; good economists should learn this and combine it with their own conceptual understanding of strategic games.

Of course this role is close to being participatory and far from being purely advisory; it is closer to that of an insider or player rather than that of a detached expert. It is also closer to what most economists who give policy advice actually do. Those who work or consult for the government of the day, the opposition, labor unions, business associations, lobbying groups, parties and lawyers in civil litigation, and so forth, are direct participants. Many policy institutes—think tanks—profess expertise or objectivity, but this is often a thin veil that tries, usually unsuccessfully, to disguise a partisanship or an agenda. The advice of such economist employees or consultants is normative in the sense that the recommended action is intended to achieve an outcome that improves or maximizes the value of an explicit objective. But this objective need not be the grand social welfare function of economics textbooks; instead, it is typically the welfare function of the faction or the association to whom the advice is proffered. Of course politicians may include broader genuinely social welfare as a component of their own objective function, either because they do care about society, or because they see their chances of reelection improved if they deliver more social welfare. But whatever the politician’s objective is, the economist
adviser must to a substantial extent internalize, else the advice will go unheard and unheeded.

This view of advice is similar to the view of lobbying developed by Austen-Smith (1995). Politicians have preferences about outcomes, but they lack full information about the effects of particular policies. Individuals or groups may offer such information, but politicians will be skeptical listeners, because they do not know the underlying motives of these informants. Campaign contributions act as a credible signal that the donor’s motives are reasonably well-aligned with the politician’s, and therefore the donor’s information gets a better hearing. Thus, according to Austen-Smith, lobbies’ campaign contributions buy them access, but only to politicians of a similar ideology.

In the same way, an economic adviser who spends a lot of time and effort helping a politician’s campaign thereby signals an affinity of objectives. This ensures a better hearing for that economist’s advice if and when the politician attains power. Of course the alignment of interests need not be perfect, and the economist can manipulate the advice in pursuit of an objective that differs somewhat from the politician’s. Thus somewhat greater concern for overall social welfare can be introduced into the political process. But such room to maneuver is limited by the logic of credible signalling: an economist whose fundamental objectives differ too widely from the politician’s would not find it optimal to make the necessary initial investment to win the latter’s confidence.

This role is not the ideal from the point of view of promoting aggregate economic welfare. It internalizes some political bias, and is therefore tainted if you like, but it is capable of doing some good. The first-best is not available here any more than it is anywhere else, but second- or third- or seventeenth-best participatory advice is not a logical impossibility.

O’Flaherty and Bhagwati find a niche for more ideal normative advice based on a truly social welfare function, but it is advice to society or the citizenry as a whole, not to the government of the day. Their examplars of such advisers are Adam Smith, Karl Marx, and Maynard Keynes. The hope is that such analysis and advice will shape public opinion, or change individual preferences, in a way that will then produce better outcomes from the political process.

No one can deny that this is a laudable, honorable, and feasible role for economists. However, two points limit its relevance for the economics profession as a whole. First, such shapers of public opinion must necessarily be very few in number. They are usually the small elite who reconsider the conceptual foundations of the subject and bring about a “paradigm shift.” One can think of only a handful who succeeded during the last two centuries; among the current generation, there is an equally small number of potential successes. If advice to the citizenry were to be the sole outlet for normative analysis, the specter raised by O’Flaherty and Bhagwati would continue to haunt at least 99.9 percent of the profession. Second, the process of shaping public opinion is very slow and uncertain. In the famous passage from The General Theory which O’Flaherty and Bhagwati cite, Keynes very clearly recognized the long run nature of the
process: “practical men . . . are usually the slaves of some defunct economist,” “Not immediately, but after a certain interval . . . soon or late” ideas will triumph over vested interests (Keynes, 1936, 383–384, emphasis added). He also said elsewhere that in the long run we are all dead.¹ Keynes was himself long dead when his ideas dominated policy-making in the 1960s and 70s. Adam Smith’s ideas took decades to win acceptance among the intellectual elite in Britain. Even now, two centuries after the publication of The Wealth of Nations, acceptance of competition and markets as the basis of economic life is still very partial and grudging even in the US and the UK; mercantilist and dirigiste philosophies still strongly influence policies in most countries like France and Japan. As for Marx, his influence was equally slow, both to rise and to fade. I doubt that in today’s impatient world, any economist who believes that he or she has an important message for the citizenry would rest content on hopes of posthumous fame. I wonder if O’Flaherty or Bhagwati would.

Most economists, seeking to achieve faster results, must and will direct their advice to governments, or at least the governing elites, not to the citizenry as a whole. Such advice, if it is to be effective, cannot be purely technical, based only on economic expertise. The adviser’s analysis must include the political process. This can have both normative and positive implications. First, the economist must generally compromise his or her ideals when it comes to specifying the objective of the policy. It is futile to advise the government to take an action that maximizes the economist’s usual measure of overall social welfare if doing so will cost the government the next election.² Second, even if an economist succeeds in moving a politician some way toward the goal of social welfare maximization, calculation of the optimal strategy must include an analysis of the political game whereby policies are actually made and implemented, otherwise the objective will not be attained.³

For example, merely advocating global free trade, no matter how fervently or persistently, is not going to achieve a better trade regime. The recommended policy is a non-starter in the political game with its entrenched and powerful special interests, so much so that it is not even a good bargaining position in the policy negotiations. Everyone knows it is going to be abandoned within seconds. It may even prove counterproductive, because it makes others think that you are a naive or unrealistic bargainer, or makes them expect more quick retreats following the first one. The politician will soon tire of such naive idealistic advice, and the economist will quickly lose influence.

Good advice in this game will tell the politician how to manipulate the game in the ultimate interests of freer trade: “If we are to succeed, we must understand

¹ Of course he should have said “in the long run, we are each dead,” but that is a separate issue, not germane to my current point.
² In the brilliant BBC sitcoms Yes, Minister and Yes, Prime Minister, such actions were labelled “courageous.” This was a code word; used by an adviser, it guaranteed that the politician would immediately dismiss such an action from consideration.
³ See Dixit (1996, chapter 4) for more on this point.

the motives and the strategies of the other players in the game. Here is my judgment of how the various interests will line up and how they will try to counter our moves. To the extent that we can move first and quickly, here is my advice on how we should try and devise the rules of the game – set the agenda or the procedures – to deflect or defeat or hijack their strategies.” This is advice by a participant to a participant, but it holds a better prospect of leading to an outcome which most economists would regard as good than can recommendation of simplistic or purely technical economically optimum policies.

Proponents of liberal trade regimes in individual countries and in the GATT – statesmen, civil servants and diplomats representing many countries, those working for the international organizations, and academic economists advising them – have manipulated the negotiation game in just this way to hijack the forces of mercantilism for better ends. They have implicitly operated on the premise, which Paul Krugman labelled “GATT-think,” that “exports are good, imports are bad, but an equal increase in exports and imports is good.” This is flawed economics to be sure, but it is good political economy; that was the lesson Hale Boggs taught Peter Kenen in the story I told above. The success of this ploy has been partial, with many setbacks, but I believe it has accomplished more in the immediate policy debates than purist free traders would have done.

The achievements of purist free traders are undeniable, but they are of the very long run kind practiced by Smith and Keynes. The advocates of free trade have helped create an atmosphere, at least in the US and perhaps in some other English-speaking countries, in which free trade enjoys the benefit of a presumptive status quo, and in each specific instance where a domestic industry or asset or factor is threatened by import competition, the burden of proof lies on those who advocate protection. This makes it harder for the protectionist forces to achieve their objectives, and has no doubt prevented many damaging trade restrictions from being imposed.

O’Flaherty and Bhagwati are clearly right in emphasizing the importance of such general opinion-building normative policy advice and writing. But that is for a small, select, and patient elite of the profession. For the vast majority of economists, giving policy advice entails accepting a participatory role, at least to some extent. And to play that role effectively, economists must include politics and the strategic games of policy-making in their analysis. The new political economy threatens unemployment only to the purely technocratic and politically naive economist.

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REFERENCES


