

EconoFact Chats: Do Economists Rule?

Binyamin Appelbaum, The New York Times

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Michael Klein:

I'm Michael Klein, executive editor of Econofact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At Econofact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

John Maynard Keynes wrote, "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men who believe themselves to be quite exempt from any intellectual influences are usually slaves of some defunct economist." The ruling of the world by economists, defunct or extant, is a subject of the book *The Economists' Hour* by my guest on Econofact Chats, Binyamin Appelbaum. Binyamin is the lead writer on economics and business for The New York Times editorial board. Before that, he was a Washington correspondent for The Times covering economic policy. Binyamin, welcome to Econofact Chats.

Binyamin Appelbaum:

Thanks. It's great to be there.

Michael Klein:

Binyamin, I really enjoyed *The Economists' Hour*. Not surprisingly, you're a great writer, and you made your points come alive with a huge number of interesting stories and anecdotes. At the beginning of the book, you write about how the embrace of markets lifted billions of people out of poverty and have made most of the world's people wealthier, healthier, and happier. But you also say that the market revolution went too far.

Binyamin Appelbaum:

Yeah. That's right. This book is the story of a revolution, of the rising influence of economics on public policy during the course of the 20th century. And as you said, I think that that has brought enormous benefits to society. It has, in general, moved public policy in the direction of embracing market mechanisms, and that has had huge benefits. But it has also had some significant downsides. Like many revolutions, the initial benefits and the embrace of markets went too far in some respects. And the result is, among other things, the rise of huge degrees of economic inequality and strains on the democratic process, increasingly.

Michael Klein:

You argue that the rise of the role of markets is due, at least in part, to the rise of the influence of economists. And the book traces this rise. You write that this transformed the business of government, the conduct of business, and as a result, the patterns of everyday life. But this wasn't always so. There's a famous story about Keynes writing an open letter to President Roosevelt in 1933, published in your paper, *The New York Times*, which Roosevelt basically ignored.

Binyamin Appelbaum:

It's kind of amazing to look back for me. One of the great pleasures in writing this book was doing the research and the reading on the trajectory of economics. And I begin the book with a story about a young economist at the Federal Reserve Bank of New York in the mid 1950s. Works in the bowels of the bank, basically as a human calculator for the people who run the place. At the time, none of them are economists. They are lawyers, bankers. One of them is an Iowa hog farmer. And this economist goes home one night and says to his wife, "I don't see a future for myself at the Federal Reserve. I don't think economists are going to play an important role in this institution." Well, that young economist's name is Paul Volcker. And by the end of the 1970s, he's running the Federal Reserve. Today the Fed is the world's largest employer of credentialed economists. And that arc is sort of the arc of the story here, the rise from irrelevance to positions of centrality in the halls of power.

Michael Klein:

So when do you date the beginning of this influence of economist? Certainly after Volcker started at the Fed, I suppose.

Binyamin Appelbaum:

Yeah. I mean, it's one of these things, like many revolutions, it happens gradually, gradually, and then all at once. So clearly, even in the early 20th century, economists are beginning to play a role in public policy discussions. John Maynard Keynes is obviously a really important example of that. But there's a real turning point in the late 1960s and the early 1970s, when the postwar world begins to crumble and nations lose confidence in their ability to provide prosperity, to achieve economic growth. And a new crop of economists really emerges and assumes greater influence than economists had until that time, arguing that the solution to these problems is to embrace markets. And so during the course of the '70s, economists begin to play a more prominent and important role than they had really at any point before that in redefining the course of public policy.

Michael Klein:

So I've mentioned Keynes, and, certainly, the so-called Keynesian Revolution changed the way governments view business cycles. But much of your book is about the influence of economists on issues related to microeconomics, not just macroeconomics. And a central player in this was Milton Friedman, perhaps one of the most influential economists of the 20th century.

Binyamin Appelbaum:

I really think he was the most influential, not necessarily in terms of his influence on academic economics, although he was very important in that realm, but in terms of his-

Michael Klein:

And he won the Nobel Prize.

Binyamin Appelbaum:

He did. Absolutely. But his influence on public policy is really what makes him a lasting historical figure. This weekend, The New York Times republished an essay that he wrote 50 years ago about the social responsibility of corporations, which in his view, was solely to make as much money as possible. Annotated, done up in full color. It's really an indication of how enduring his influence is on public policy debates.

Michael Klein:

And then, of course, he had the book *Capitalism and Freedom*, which was written with his wife Rose. And they had this very popular television series as well.

Binyamin Appelbaum:

He really understood that economics is ultimately about public policy. I mean, the name political economics, we don't use it anymore. Maybe we should. And he really wanted to talk directly to a broad audience. He wanted to reach policy makers, and he wanted to reach voters. He was very adept at doing that. He wrote for a popular audience. He had a column in *Newsweek*. He appeared on public television specials. He answered pretty much every letter he got from the general public. He really saw himself as an apostle for economics out there trying to change the world one person at a time.

Michael Klein:

Can you give a couple of examples of how Friedman's views affected specific policies?

Binyamin Appelbaum:

For me, one of the most striking stories, and it's the first chapter in my book, is about the role that Friedman and some of his allies played in convincing Richard Nixon to end military conscription in the United States. So after World War II, the United States continues to draft young men into the armed forces every year, tens of thousands of young men each year, provide enough people to serve in a Cold War army. And in the 1960s, Friedman and other economists argue successfully that this is basically a waste of resources, that taking Sergeant Elvis Presley and making him serve in the Army or drafting Muhammad Ali is not making the best use of American lives. Those people should be left alone to sing and to box, and you should pay other people to serve in their place. And that will produce a better army. And it will also be better for the economy as a whole.

Michael Klein:

Joe Frazier might've appreciated Muhammad Ali being drafted.

Binyamin Appelbaum:

That's right. So not everyone benefited, as is so often the case with changes in economic policy.

Michael Klein:

So, let me push back on this a little bit, Binyamin. You mentioned the draft and Nixon being influenced by Friedman, but Nixon was... And at that time, the Vietnam War was very unpopular. Nixon was a deeply political person, and it seemed to me that he was responding to the politics of the day more than to an intellectual argument made by an economist at the University of Chicago.

Binyamin Appelbaum:

One of my goals in this book is to convince people of the argument that economists were influential. And the way that I do that is by going into the documentary record, the original documents, the interviews that these people gave. To the extent that they're still alive, I tried to talk to as many of them as I could myself. But in the case of the draft, we actually have this rich record of Friedman making the argument and of it being brought to Nixon, of Nixon reading it, and of Nixon embracing it actually before the Vietnam War had become hugely unpopular and before the draft had become hugely unpopular. Nixon was already publicly saying, "I have been convinced for economic reasons that this is a bad idea."

Binyamin Appelbaum:

And no doubt, his ability to carry the day on the issue, his ability to finally get rid of the draft, reflected also the changes in the climate of public opinion. He ultimately needed Congress to vote for this. And so those other factors were undoubtedly influential. But one aspect of this story that I think is insufficiently appreciated is how important it was for the idea to exist, for a rationale for ending the draft to have been articulated by economists in a way that Nixon found persuasive so that when the political climate was conducive, he knew what he wanted to do.

Michael Klein:

I've spoken in previous episodes of Econofact Chats with economists who served at the highest levels of government and policymaking. I spoke with Greg Mankiw, who was the chair of the Council of Economic Advisors under President George W. Bush, and also with Maury Obstfeld, who served as a member of the Council of Economic Advisors under President Obama. And after that, Maury was the chief economist at the IMF. Greg told me that when you work as an economist in government, you're not a decision maker, you have no real power other than some ability to influence policy from your ability to persuade and to provide useful information to the decision makers who're the elected officials. And Maury said that in the policy world, economics and politics are never that far apart. It's clear that, to some degree, policy decisions will be driven by political imperatives rather than by some dispassionate notion of efficiency. And this is in line with what you were saying, I guess, and also what Keynes wrote.

Michael Klein:

But all along, I've also held this somewhat cynical view that politicians use economics in the way that a drunk uses a lamppost, for support rather than illumination. So this cynical view is somewhat at odds with both the thesis of your book and what Keynes said, and, I guess, what Greg and Maurice had to some extent as well. Keynes isn't around to argue with me, but you are. How would you respond to that?

Binyamin Appelbaum:

Well, on behalf of myself and John Maynard Keynes, let me say this. I think that Milton Friedman never went into government. And I think one reason is that he understood that his real influence was not to be in the room where the details of a particular policy was being crafted, but to be out in the world articulating frameworks, establishing arguments for the direction in which policy should move. And inevitably, that got translated by policymakers. And inevitably, Friedman was not totally happy with the details of how these things were implemented. But his role, and the role of other economists, in establishing the broad framework and articulating the rationales for changes in public policy was enormously influential. And the policy makers would not have been able, would not have known where they wanted to go, and would not have been able to muster support to go there, without the intellectual foundation provided by the economists.

Binyamin Appelbaum:

It's a relationship, for sure. The economists and the politicians were in dialogue. And the results, I think, very much as Maury suggests, are both economic and political. And those two things are intertwined and inform each other. But it's not the case, I think, that the typical situation is that a policy maker decides what they want to do and goes and finds an economic rationale for it. I think Keynes's description remains really vivid and right, which is that that politician is operating in the context of ideas that have been articulated by economists and groping to find a way to bring them to fruition in the context of the political realities of the moment.

Michael Klein:

Well, I guess as executive editor of Econofact, where we're actually trying to do that, I take more comfort from your statement and the evidence that you've provided than my view as a cynical 22-year-old just leaving college.

Binyamin Appelbaum:

And it's not just you. George Stigler, the famous economist, he always used to say, "I don't believe we have any influence on politics." But the thing about both you and Stigler, you both say that, and then you both spend your careers trying to influence politics. So the actions speak for themselves.

Michael Klein:

Well, I guess that's true. I don't quite know how to respond to that. So I'll just go on with my next question. A central theme of your book is that the economists' views are often tilted too far towards the idea that markets operate efficiently and without regard to distributional consequences. And even though, as you write, economists are a diverse group, there is a relative homogeneity of opinion. Certainly we can think of examples of that. For example, a very large proportion of economists favor free international trade, at least for a wide set of consumer goods and services. And while this may benefit economies in the aggregate, there're also distributional effects. And economists since David Hume in the early 19th century have recognized this.

Michael Klein:

Also in a previous episode of Econofact Chats, Justin Wolfers at the University of Michigan, who contributes to your paper, to The Times, said, "The key insight of economics is, or what?" Which we refer to as opportunity costs. In this case, I guess I would raise the question, or who? So if economists don't contribute to the debate about economic issues, who should? Or who should be drawn in to temper economists' views?

Binyamin Appelbaum:

So I think economics is just the name we have given to the language in which we discuss public policy. So there's an inevitability. There will be economists playing this role of trying to adjudicate and to structure our public policy debates. The question is, what kind of economists? How do they do it? What tools do they use? So this is an argument, not to exclude economists from the room, which I don't think is even possible, but for economists to be more open about their normative assumptions. You talked about the distributional aspects of these issues. For a lot of the second half of the 20th century, economists were dismissive of distributional considerations, argued that they fell outside the ambit of what economists should be talking about, that economists should focus on efficiency, government policy should focus on efficiency. And then if you wanted to come back and deal with the distributional consequences, that was fine.

Binyamin Appelbaum:

Trade, preeminent example of this. The idea was, get markets open and then worry about the losers. You could help them out with adjustment assistance and these types of policies. And as Joe Stiglitz has observed, that never happens. So at some point you need to worry about distributional... What you want is an economist who's willing to talk about distributional issues upfront. What you want is an economist who is willing to acknowledge the limitations of some of these models that treat economic actors as rational and with great foresight, and to incorporate insights from the realm of psychology about the way that people actually behave. What you want is an economist who is not going to assume that if one person

gains \$2 and another person loses \$2, that we've achieved some kind of meaningful equivalence in those experiences.

Michael Klein:

Well, of course, behavioral economics, which has become very influential, takes into account those kinds of things. Even back in the 1960s, Arthur Okun, who is an incredibly influential economist at the Brookings Institution, wrote a book called Equity Versus Efficiency. So, economists have been aware of this. But I take your point that for a long time, economists said, "Well, we cede any of the distributional questions to politicians. That's part of the political process. And we'll just talk about what the relative trade-offs are."

Binyamin Appelbaum:

And Okun's conclusion was disastrous. What he said was that distributional issues come at the expense of efficiency, that there was a trade-off. And what we've learned, increasingly, is that that may be true at some points along the spectrum. But if you get extremes of inequality, you get consequences for growth as well. And so if you want to think of the last couple decades as a natural experiment in what happens when you get extreme inequality, we're learning some lessons from that.

Michael Klein:

Right. And economists have been looking at that, as you mentioned, more recently. And certainly, attention has been shifted from these ideas of efficiency above all else to a more nuanced view, a view that takes into consideration these other aspects.

Michael Klein:

So you talk a lot about economists. Binyamin, let me ask you about newspapers. You have a very high role at perhaps the country's most influential newspaper. And at Econofact, what we try to do is bridge the gap between the research and the teaching of academic economists and the general public to make the knowledge of these professional economists and their insights widely available. I imagine that, to some extent, you see yourself in a similar role. You've worked as both a correspondent covering economic issues and as the lead member for these issues on The Times editorial board. How does the research and analysis of economists inform each of these roles, and how do the two roles differ from each other, of correspondent and member of the editorial board?

Binyamin Appelbaum:

So I think economic journalists are kind of in the role of Moses. Our job is to go up the mountain and talk to the experts and try to understand what is known about how the economy works and public policy, and then come down the mountain and try to explain it to the people. And-

Michael Klein:

But never see the Promised Land.

Binyamin Appelbaum:

Exactly.

Michael Klein:

Mash the tablets the first time you come down as well.

Binyamin Appelbaum:

You always need to throw away your first draft. That's very important.

Michael Klein:

We can get all Talmudic here, but continue, please.

Binyamin Appelbaum:

And so that, I think, is fundamentally the role of economic journalists. So we're extremely dependent on academic economics. Our job is to intermediate between the experts and the public, and hopefully to inform the public policy debate by clarifying what is being learned and what the lessons are, and what is not known and what the questions are. And that work really is the same, whether you're working, as I did for many years, as a reporter on the news side of The New York Times, or whether you're working, as I do now, on the editorial board of The Times. I'm always trying to understand what we know, what we don't know, and what the conclusions we can take away are. In my current role, I'm expected to arrive at those conclusions a little bit more clearly on my own, which is stimulating and challenging, but the basic work is very similar.

Michael Klein:

Well, hopefully Econofact can help you with that, as I know that it did about a year or so ago when you cited one of our pieces on the value of the dollar. And that, of course our goal as well, to be an input to people like yourself, but also the general public, to make these ideas well known.

Binyamin Appelbaum:

Absolutely. In the hard sciences, people who can't speak clearly are often... That's held to be a mark of genius. In economics, at least, the ability to explain your own ideas clearly is so important. And Econofact plays a valuable role in doing that and in encouraging economists to speak clearly to a broader audience. I think that's not just good for the broader public. I think it's probably good for the economists as well.

Michael Klein:

Well, thank you for that. And I think you're right. I think the economists who participate and contribute to the site really get a lot out of it. And I'm hoping that the general public and people like yourself do as well. So, Binyamin, thank you very much for speaking with me today. And congratulations again on the publication of The Economists' Hour. Really interesting and fun read.

Binyamin Appelbaum:

Thanks very much.

Michael Klein:

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