

EconoFact Chats: The Politics of Economic Policies

Jacob Hacker, Yale University

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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:

You may have seen, in visits to a federal historical site, the Work Projects Administration Eagle from the 1930s. Or when you were at a national park, a sign noting that a trail was constructed during the Great Depression by the Civilian Conservation Corps. New Deal projects were well-publicized. It's probably less likely that you remember seeing signs in the early 2010s announcing that the road repair project was sponsored by the American Recovery and Reinvestment Act that was put in place to combat the downturn from the Great Recession that began in 2008.

Michael Klein:

There is a view that this lack of publicity was a mistake. Economists tend to consider public works projects or economic plans from the perspective of efficiency or equity, but not in terms of how to garner political support for these undertakings. But as we've seen, this political support is a key element to having these policies enacted and supported. To discuss these issues, I'm very pleased to welcome to EconoFact Chats, the political scientist Jacob Hacker of Yale University.

Michael Klein:

Jacob is a regular media commentator and policy advisor. He recently edited, with Paul Pearson, a special issue of the Annals of the American Academy of Social and Political Science on policy feedback, which is our topic today. Jacob, welcome to EconoFact Chats.

Jacob Hacker:

Thanks so much for having me, Michael.

Michael Klein:

Jacob, I'm just a simple economist, maybe even a simple minded economist. What should I know about why and how it's important to get the politics right when considering policies that, from an economic standpoint, make sense?

Jacob Hacker:

Well, I think that economists are very good about thinking about how policies can be designed to deliver certain kinds of economic and social outcomes. And they're less good at thinking about how policies can be designed to deliver certain kinds of political outcomes, and they might think, and you might think, that the politics is for someone else. But of course, every economist who's designing a policies thinks, "Well, I've got to make sure that this policy is politically feasible." Right? A policy that can't get past is not going to have good effects.

Jacob Hacker:

And so what I would encourage is for us to also think about what might be called political expandability. So, there's feasibility and there's expandability. So does the policy, once it's passed, get entrenched and potentially expand over time? And I think that's really important today because we're in an era of gridlock and polarization where it's often hard to do big things.

Jacob Hacker:

And so a lot of the policy steps we take are going to be smaller than we would want. And we want to know, are they going to build political momentum so down the road we might be able to expand them in the future? So, that's the basic idea of policy feedback. And I think it can be applied to a lot of the big areas where economists are thinking about reform. Poverty, inequality, expanding healthcare, climate change.

Michael Klein:

Well, I introduced this episode by mentioning Roosevelt's New Deal initiatives of the Work Projects Administration and the Civilian Conservation Corps. Roosevelt was, of course, an incredibly clever and perceptive politician. What did he do to help sell his programs to the public at the outset of the Great Depression?

Jacob Hacker:

Well, we all know about the fireside chats, right? That Roosevelt was a really excellent communicator and he found new media for doing so. But it's also important to see that Roosevelt was a very savvy political designer. He understood that you had to act in visible and popular ways to help restore the economy. And it wasn't just a matter of getting more money into circulation, for example.

Jacob Hacker:

And I do think that economists and policy experts tend to debate fiscal and economic policy as if public spending was just about multipliers or aggregate demand. But Roosevelt knew that in a country that's skeptical of government like the United States, you really have to make the case for public spending. It has to be visible and it has to be traceable to government and have those positive, aggregate effects. So, you mentioned the symbols of the New Deal, right?

Jacob Hacker:

Almost all the big projects that happen, whether they were artistic or infrastructure, involved, labeling and branding and saying that these were part of the New Deal effort. And Roosevelt knew that not only was this essential for getting people more confident about the economy and rebuilding it in the wake of the Great Depression, but also that this was important for maintaining public support for Democrats and for the New Deal. Harry Tompkins, who was Roosevelt's relief administrator, famously said, "Tax and spend." But a lot of people don't know the whole quote. What said was, "Tax and tax and spend and spend and elect and elect."

Michael Klein:

So those last two are very important, of course. Social security was one of the key New Deal programs and it remains very popular today. In fact, sometimes of course it's called the third rail of American politics. Something that politicians dare not touch. How did the Roosevelt Administration introduce such a radical plan in a way that garnered such strong public support?

Jacob Hacker:

Yeah. Obviously the exigencies of the great depression were the key instigator for the effort, but there was also a lot of thinking about, "How would you design it in a way that would allow it to gain support and build support over time?" And probably the best example of this is a feature of the Social Security Act, and particularly of the old age insurance program, which we now just call Social Security, that Roosevelt's economists were actually somewhat opposed to. Namely the payroll tax that is the way in which money is collected by social security to fund old age pensions.

Jacob Hacker:

And when the economists said, "This is a regressive tax and it might hurt hiring." He said, "Well, maybe you're right about the economics." But then he went on to say that the tax was all about politics and it was in there because if there was a tax, a contributory tax, and this is a quote, "No damn politician can scrap my social security program."

Jacob Hacker:

And he was right, right? That social security expanded in part because people saw themselves as having contributed to it, even if they got back vastly more than they put in, there was a sense that you couldn't touch the program because you were basically aggregating these prior commitments and taking away people's contributions. And the important thing to remember there is that these payroll taxes then were part of movement or political organization building. Because they essentially created a strong constituency for the program and it became harder and harder to turn back the clock to the point now where we think of it as a third rail. Touch it and die.

Michael Klein:

So all of these things, Jacob, that you're talking about alludes to this idea of policy feedback that I mentioned at the outset. What more specifically is policy feedback? And I guess you're alluding to why it's important, but could you be a little bit more specific about that?

Jacob Hacker:

Sure. The term comes from the work of Paul Pearson and Thetis [inaudible 00:08:29] and some other political scientists who were writing in the 1990s about the ways in which policies, once they were enacted, could reshape politics. And in particular, they were really interested in these stories like social security. Policies that essentially create strong vested interests, strong constituencies, bigger government capacities, and then become entrenched and maybe expand over time.

Jacob Hacker:

And the basic ideas of policy feedback is that in our society, where government is a huge part of everyday life, that policies are an important part of the political terrain. They are just like political institutions and just like parties and just like voters, something that influences what's possible. And in particular, they work through these various different channels. And perhaps one of the most important channels, the one I've alluded to before is that they can create powerful interest groups that support the policies. And so it's not much known, but there were really wasn't a group of older Americans, a group representing older Americans, before the passage of Medicare in 1965.

Jacob Hacker:

But Medicare, because it left some gaps in coverage, actually gave an opening to an organization that was then called the American Association for Retired People, now it's just known as AARP, to sell low cost

supplemental insurance to older Americans. That was how the AARP became this formidable lobbying organization with tens of millions of members through building on top of an incomplete Medicare system.

Michael Klein:

Yeah. It was a little disconcerting to me when I started getting AARP mailings about eight or nine years ago and continue to get them. I'm trying to throw them out because they're reminding me of something that I don't want to be reminded of, but there they are. Very powerful group.

Jacob Hacker:

You might like the insurance when you get on to Medicare.

Michael Klein:

I might like it at that point. Right now, I don't have to be reminded that I'm in this age group.

Jacob Hacker:

Exactly.

Michael Klein:

What are some other ways in which policy feedback works?

Jacob Hacker:

Yeah, I've talked mostly about the way in which policy feedback can affect public opinion or maybe the formation of supportive interest groups, but the scholars who study policy feedback also look at the way in which it changes the capacities of government agencies and the ways in which it can spur social movements or change the structure of markets.

Jacob Hacker:

One of the examples that I always like to turn to and talking about this process is the deregulation that took place in the 1970s, because its major effect was to restructure markets in ways that made it very hard to turn back the tide of deregulation. So, that was a market shaping effect that occurs through these policies that then had this political consequences of weakening the constituency for these regulations that had once been a huge part of the American economy.

Michael Klein:

So Jacob, you're talking about not only getting policies enacted, but having them stick once they're there because either interest groups are created or government agencies or just public support for it. You've written a lot about the Affordable Care Act, which is more commonly known as Obamacare. There seem to have been a lot of concern about this at the outset fueled in no small part by talk of things like death panels and socialized medicine. But now it looks like it's a very popular program and there seems to be a reticence to under take efforts to dismantle it.

Jacob Hacker:

Yeah. I think the Affordable Care Act is a mixed story about policy feedbacks. Because unlike say Medicare or social security, it wasn't a big visible program. It involved some visible steps, like the expansion of Medicaid and the creation of these health insurance marketplaces, but a lot of it was relatively hidden from view. And I think it's notable that the most visible aspect of the law, the so-called individual mandate, was also not a particular popular one.

Jacob Hacker:

So, I think if you're thinking about how to design a policy to build support, the Affordable Care Act would get a B minus. But over time, I think it definitely started to build these feedback effects that it became more popular with the public as more people received it. And importantly, when people see benefits that they have threatened, they're highly loss averse, right?

Jacob Hacker:

So, once these benefits were in place and then Republicans said that they wanted to repeal and replace the law, people became more supportive of it over time. But I think that we also should recognize that the Affordable Care Act created some really important supportive groups, right? Particularly healthcare providers, which really depended on the increased payments that occurred because more people had insurance or people had Medicaid.

Jacob Hacker:

At the state level in particular, provider groups were really important to this long-term process, by which more and more states have adopted the Medicaid expansion. So, those kinds of feedback effects on the mass public and on interest groups did kick in and eventually protected the Affordable Care Act against being repealed and replaced in 2017. In the end, Republicans had such a tough task of trying to overcome these vested interests and this public fear of change that they were unable to, even with a majority in the Senate and the presidency, they were unable to pass the law.

Michael Klein:

So, would you give it maybe a, in retrospect, a better grade than B-minus a few years on? Because B minus, I'm sure at Yale, it's not that great a grade, right?

Jacob Hacker:

Yeah. A B-minus at Yale is a terrible grade. So, no, I definitely think it is improved. It's also the case that today, I think, that the administration recognizes some of the weaknesses of the law. So they're trying to in particular encourage more states to adopt Medicaid. And they're also trying to make the subsidies for insurance a lot more generous so that more people take them up so that they're more popular, because one of the big problems is it's just still really expensive to get insurance through the exchanges.

Jacob Hacker:

And what the policy feedback literature would tell you is that you want to give people big benefits with relatively little cost. And so if there are costs, you want to hide them. But the Affordable Care Act didn't hide a lot of those costs.

Michael Klein:

So, a better grade than a B-minus now?

Jacob Hacker:

Yeah. A better grade than a B-minus. I think that the law had a Rocky start, but I think it's now an entrenched feature of US social policy. And that's, I think, a reminder that policy' create their own bases of support, even a policy that was very marginally popular at the time of its passage can become an entrenched feature of the American welfare state.

Michael Klein:

So, this idea, Jacob, that you will improve a grade might come back to haunt you if any of your students are listening to this podcast and they might approach you a semester or a year later and ask for an improvement as well.

Jacob Hacker:

If they're listening carefully, they're going to have to wait at least a decade.

Michael Klein:

Is the idea of policy feedback becoming more common for political strategizing? For example, can we see differences in the rollout efforts of the current pandemic relief as compared to the stimulus during the Obama administration in response to the downturn that it faced when it first came into office?

Jacob Hacker:

I think we can absolutely see this learning take place. I think the Obama administration, Obama himself in his memoir said that we didn't do a good enough job selling our policies. But I think that what the policy feedback literature would tell you is it's not just about selling. It's about having a product that's designed to create greater and greater support over time among both voters and key constituencies. And if you look at the way the Biden Administration has been approaching a lot of its policy priorities, I think they have definitely recognized that you need to use policy to build power.

Jacob Hacker:

The best example of this, I think, is if you go back in 2009 and look at the stimulus package that was passed to deal with the financial crisis, the centerpiece of it was this tax cut that President Obama and his advisors supported that was basically invisible. It was a cut in payroll taxes. Now, there's a debate over whether they wanted it to be invisible because you know, some of the economists said that if it was invisible, people would be more likely to spend it, but it was clearly not a great idea to sink a good chunk of your stimulus dollars into a middle-class tax cut that come to the 2010 midterm election almost no middle-class Americans recognized had actually happened.

Jacob Hacker:

And so this time around, there are big stimulus checks in the relief package and they happen to be checks, money being sent out from the Treasury Department directly to American families. And so that's a very clear case of learning that the tax cut was actually too invisible and not traceable enough to the government.

Jacob Hacker:

And I think that you can see this in other areas as well, that on healthcare, as I mentioned, there's an effort to try to remedy some of the weaknesses of the Affordable Care Act in ways that will make it more visible. And on climate policy, the centerpiece of the Obama administration's efforts was a so-called cap and trade program that involved imposing a pretty big cost immediately, right through this new cap that would be on carbon emissions. But whereas the Biden administration is basically talking about a big investment. So first, put the money into infrastructure and climate technology, and then we'll think about exactly what kind of limits we need to have down the line.

Michael Klein:

Well, on healthcare, Jacob, you were recently awarded the Robert M. Ball Award for social insurance in recognition of your, and I quote, "Profoundly influential research and writings on health policy.

Especially your development of the public option, a proposal to create government run health insurance that would compete with private health insurance companies."

Michael Klein:

Well, first off, congratulations on the award.

Jacob Hacker:

Thanks so much.

Michael Klein:

During the effort to pass the ACA, the public option was ultimately dropped partly due to pressure from the insurance industry. Now the public option is being revived, but the opposition is coming from the left instead of the right since it favors Medicare for all, which would be a universal government healthcare that goes well beyond a public option. What does this experience tell us about policy feedback?

Jacob Hacker:

Yeah, I think it tells us a lot. The reason why our system is so difficult to change is policy feedback, right? I wrote in one of my first books, the Divided Welfare State, about how the United States came to rely on private employer provided health insurance. And once working age Americans were basically covered through employment based coverage it became really hard to expand public insurance.

Jacob Hacker:

So, it's not a coincidence that the two groups that were eventually covered in 1965 were the elderly and later the disabled on the one hand, and the poor on the other hand. These were the groups that were left out of the employment-based system. Now that employment based system has been eroding. But if you look at what the Obama administration tried to do in 2010, they really took for granted that employer based insurance would remain the main way in which Americans got coverage.

Jacob Hacker:

And I thought that the public option was a way of expanding the role of Medicare, which is the most popular health insurance program in the United States, and has a really good record of cost control compared with the private sector, but to do so in a way that wouldn't necessarily create the kind of political blow back that you got from Medicare for all. Because Medicare for all really runs a foul of all of those policy feedback effects I was talking about. It goes after the health insurance industry and other vested interests in our predominantly private system, it will freak out Americans who have employment-based insurance, fearful that they'll lose it. And it's going to involve, given how costly our system and given how far we are from universal Medicare, it's going to involve a lot of new taxes.

Jacob Hacker:

Now I've been thinking a lot about the public option as itself a policy feedback strategy, right? If the public option is competing with private insurance and doing a good job and people like it, it could very well expand over time. And so there are people who support the public option, who really believe it could be a backdoor route to Medicare for all. I'm not sure if that's true, but I think that it is the case that the public option is designed in a way that if it's successful, it will build public and interest group support over time.

Jacob Hacker:

Maybe business will come to see it as a good way to cover their workers and therefore are more likely to encourage their workers to get coverage through the public option and those kinds of processes could play out after its passage, and that's what the policy feedback literature really leads us to think about. And so in a way it's a proof in concept of what I've been studying for the last 25 years. Can you design a policy that would create self-reinforcing political effects that would allow it to expand and become entrenched over time?

Michael Klein:

Well, Jacob, this has been really informative for me, as I mentioned, a simple minded economist. Because in operating in the real world, we have to think about these policy actions, whether or not obviously a plan can get passed, but also as you're pointing out very importantly, whether once it's passed, there is an ability to keep with it because of the political interest that is garnered from it.

Michael Klein:

So, thank you very much for speaking with me today on this topic and basically for teaching me a lot about this.

Michael Klein:

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