

Letter from America

News for Parrots

With the arrival of a new administration in Washington, there have been wholesale changes in the economists occupying key policy positions. In the first of this year's Letters from America, Angus Deaton reports on these changes - and notes some surprises.

IN THE 1960s, one of the 'satire' groups ran a sketch which began 'Here is the news for parrots. A jumbo jet today crashed on takeoff. No parrots were hurt.' In the US, over the last four months, we have had an extraordinary Presidential election which, if it did not exactly crash the national polity, left many hurt. And if some distinguished economists lost their Washington positions as part of the larger convulsion, other economists continue to flourish there under the new administration. Even if the new team contains fewer academic stars than the old, there will be no return to the desert of the Reagan administration when the President's chief economic advisor was Beryl Sprinkel. (You don't remember Mr Sprinkel? Quite so.)

The most influential of the Bush economists is Larry Lindsey, a Harvard (Martin Feldstein) trained tax economist who is a committed tax-cutter, and who is the point-man for the Bush tax cut that will preoccupy the Congress for many months to come. Glenn Hubbard has been recently nominated as Chairman of the Council of Economic Advisors. Hubbard, from Columbia University, a fine economist by anyone's standards, is also a believer in tax cuts, and was hailed by Dan Mitchell of the Heritage Foundation as a 'very good economist, which by definition means he appreciates free-market policies.' He was a fellow student of Feldstein's at Harvard with Lindsey, and was previously a Deputy Assistant Secretary in the Treasury in the administration of Bush père. When that administration was grasping for good economic news to counteract the rampant Bill Clinton in 1992, Hubbard wrote a famous Treasury 'rags to riches' memo (ordered up by Representative Dick Armey, of whom more below) which found a huge amount of upward mobility in incomes in the 1980s, a good deal of which turned out to come from college students who'd grown up into real jobs, or had the good fortune to get married, turning their tax returns from one earner into two.

A notable feature of Hubbard's nomination was that neither the *Wall Street Journal* nor the *Washington Post* regarded the announcement as worth reporting, marking an extraordinary decline in the rank of the Chairman of the Council. In part, this is the legacy of Larry Summers, the retiring Treasury Secretary (whose signature appears on the dollar) and whose dominance in the Washington economic hierarchy restricted the space for other economic advisers. (Summers' appointment to be the next President of Harvard has just been announced.) In part

too, the Clinton administration split economic responsibility between the Council of Economic Advisors and a then new National Economic Council. Lindsey is head of the NEC, and the power of his position, with its direct access to the President, has further marginalized the Chairman of the Council. Indeed, the newspapers have repeatedly reported that the administration has had difficulty filling the position and that it was turned down by, among others, John Taylor. Taylor is rumoured to be the lead candidate for nomination to the Treasury Undersecretary for International Affairs, a position that is the administration's connection to the World Bank and the IMF (whose abolition Taylor has supported in the past), and which was the starting point for Summers' ascent to Treasury Secretary. If appointed, Taylor would be the intellectual heavy-weight among the Bush economists.

'Lower taxes' is the central demand of the right and it is the immediate and overriding priority of the new administration, so that a commitment to that objective is the litmus test for economists in this administration. Lindsey has described the estate tax (referred to by Republicans as the 'death' tax) as 'the biggest impediment to capital formation on the nation's books.' This view was immediately denounced by 120 billionaires (including George Soros, Bill Gates père, and Warren Buffett) in an advertisement in the *New York Times*, prompting Lindsey to muse publicly on the relationship between the billionaires and their children. If the 'death' tax is indeed abolished, together with capital gains taxes at death, as the administration intends, there will be a lucrative (if necessarily short-lived) money-laundering business for the elderly. The income tax will be readily avoidable by those rich enough to be able to convert income into capital gains, and lucky enough to find a willing collaborator on the brink of eternity. But the best rhetoric comes in defence of income tax reduction. Economists on the right, after years of arguing the contrary, have suddenly awakened to the benefits of using tax policy to fine tune the economy. And Dick Armey, himself once a professor of economics at North Texas State University, but now the House Majority Leader, slammed the Democrats for attempting to force the nation down a road that 'will forever change the relationship between government and its citizens,' and for 'proposing a highly reckless and irresponsible course' that will result in 'the diminution of American liberty' and have 'a consequence utterly without precedent in American life.'

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Rewarding Outstanding Teaching

from Professor A. Brewer, Deputy Director, Economics LTSN,
University of Bristol

The Economic Subject Centre of the Learning and Teaching Support Network (Economics LTSN) invites nominations for three prizes of £250 in book tokens for outstanding contributions to the teaching of economics in higher education. The three prizes will be:

- The Economics LTSN Prize for Outstanding Teaching will be awarded to a UK-based academic whose teaching of economics or cognate disciplines is, in the judgement of the panel of judges, exemplary and/or innovative. Teaching which makes use of, or is based on, networked electronic resources may be considered under this heading if the resources are directed towards or restricted to a particular course or institution.
- The Economics LTSN Prize for an Outstanding Electronic Resource will be awarded to a UK-based individual or team for the provision of publicly-available electronic resources for the teaching of economics in higher education which are, in the opinion of the panel of judges, particularly valuable and/or innovative. Commercial sites or products will not normally be considered eligible, though the panel may, at their discretion, consider resources with some commercial element.
- The Economics LTSN Prize for an Outstanding Published Contribution to Economics Education will be awarded to a UK-based individual or team for a publication which, in the opinion of the panel of judges, makes a particularly valuable contribution either to the teaching of economics in higher education or to the study of such teaching. Both printed and electronic publications can be considered, though the intention is to reward a single publication such as a book or article rather than a collection of resources.

The prizes are intended to reward excellence in teaching and to draw attention to outstanding work. The 2001 prizes will be presented at the Developments in Economics and Business Education Conference hosted by the centre at Bristol in September 2001 (the day's conference fee, accommodation and travel are included as part of the prize).

Nominations should be sent to the address below by the end of May 2001 (preferably by E-mail) with a short nominating statement (up to 200 words) and (for electronic resources) the URL or (for a publication) either a copy or a bibliographic reference. Self nominations are welcomed. The judges may seek further information from nominators after shortlisting. The LTSN E-mail address is: Itsn-econ@bristol.ac.uk

Further information about the prizes can be found at: <http://www.economics.ltsn.ac.uk/prizes/>

Economics LTSN is one of 24 subject centres, based in higher education institutions throughout the UK, offering subject-specific expertise and information on learning and teaching. One of the principal aims of the centre is to gather and disseminate good learning and teaching practice throughout the higher education economics community.

Foot and mouth

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Clearly the costs to other industries (tourism etc) will be greater than to farmers, but it is worth remembering that, compared with 1967, many farmers are now into tourism. This is one crisis in which diversification may not be much help.

After the first two weeks of this outbreak, the authorities made some relaxation to the movement orders and then worked hard to persuade the public that the countryside was still 'open'. Was this, do you think, a signal that the authorities themselves were having second thoughts about the costs and benefits of their initial response?

No. There are pressing economic and political reasons for trying to be flexible. I would be very surprised if there were any doubts about the basic policy.

In your own view, have we tackled this outbreak in the best possible way? Are we likely to do it differently in future?

We made a good start but then got into difficulties. It has taken far too long to slaughter and burn carcasses. There is a shortage of MAFF vets and other specialists due to cut backs in funding. Compared with 1967, more vets work on 'small animals' (pets) rather than on sheep and do not want to get involved for what are relatively low fees. You will recall that slaughtered animals have lain in fields for days before disposal with no apparent action to really accelerate the task. This has caused a great deal of frustration. At the same time, the government was admitting its plan to cull healthy animals as a protective measure could not yet start. One change that could be made fairly easily in future would be to slaughter animals on vet confirmation of infection rather than waiting for laboratory confirmation.

For those of us who lived through earlier outbreaks of this disease, a possible difference in the recent visitation has been the way in which the initial sympathy for the farming community has for some people become qualified once the countermeasures began to cause serious inconvenience. Do you think this reaction is in any way related to other recent events which have encouraged a public disillusion with UK farming?

The public was on-side initially. People chose not to go into the countryside. This attitude may be changing and would definitely change if farmers start bending the rules, if we get more stories of farmers 'hiring sheep to claim quota' and other 'fiddles'. In some areas of the country there is undoubtedly resentment as farmers did not support other industries facing catastrophic decline or crisis in the past. But where the mass of the public is concerned it is apparent that whilst initially F&M seemed to be put in a similar league to BSE - a by-product of agricultural greed, that view seems to have declined as the crisis has continued. Equally, initial attempts to link it to 'factory farming', have largely expired, since it has been recognised that sheep are about as extensive as they come and after all the outbreak started in a very traditional farming system, a swill-fed small pig unit, about as close to cottager pig production as it is nowadays possible to get.

Note:

1. Martin Seabrook is Professor of Rural Resources Management, Head of the Division of Agriculture and Horticulture and Director of the Rural Business Research Unit, University of Nottingham.

‘Exasperating Calculators’

- a message from Australia

Following Alan Kirman’s recent report of student criticism of economics education, Alf Hagger¹ of the University of Tasmania, describes a recent assault in Australia from other social sciences.

IN AUSTRALIA there has been nothing like the rage over the teaching of economics at University level which has occurred in France (Alan Kirman, *RES Newsletter*, 112, Jan. 2001). Student dissatisfaction there may have been; the marked decline in the proportion of tertiary students enrolling in economics degrees over the 1990s certainly points in that direction. But if it has existed at all, it has been silent; there have been no media protests, no petitions, no national inquiries.

This is not to say that Australian economics has been rage-free. Far from it. For something like a decade now the Australian profession has been caught up in a rage over ‘economic rationalism’ - one which seems to have had no counterpart in any other English-speaking country.

Australia and economists

Those who set the rage going (who lit the bushfire, so to speak) did so with the clear aim of undermining Australian economists and Australian economics, as it existed. Economist-bashing was no novelty in Australian history. An account of an earlier episode was given by W K Hancock in his 1930 book, *Australia*. With echoes of Edmund Burke’s ‘sophisters, calculators, and œconomists’, Hancock wrote that ‘...Australians have always disliked scientific economics and (still more) scientific economists ... All Australian economists are agreed that the soaring costs of protection are menacing Australian prosperity...The guardians of Australian orthodoxy have thought it necessary to refute these exasperating calculators...’

The ‘guardians of Australian orthodoxy’ who, in the 1990s, felt it their duty ‘to refute these exasperating calculators’ were not ordinary people. On the contrary, they were leading members of those disciplines which are next-door neighbours of economics - sociology, political science and, to a lesser extent, social work.

The most prominent of these troublesome neighbours was a sociologist named Pusey. In 1991 he published a book entitled *Economic Rationalism in Canberra: A Nation-Building State Changes its Mind*. In one stroke this book launched both the rage over economic rationalism and the allied campaign against Australian economists.

‘Economic rationalism’

Despite the fact that ‘economic rationalism’ was a new term - one not used in other countries at all and not here to any extent prior to the 1990s - Pusey gave no formal definition of the term

or even a general explanation of its meaning, anywhere in the book. In later writing, however, he remedied this omission. It turned out that, to him, ‘economic rationalism’ was a viewpoint on the role of governments in the economic sphere. To quote Pusey it was ‘...the dogma which says that markets and money can always do everything better than governments, bureaucracies and the law’.

As the title suggests, the main thrust of the book was that economic rationalism, in this sense, was dominant in Canberra - among the senior economists in the Commonwealth Government’s bureaucracy, particularly those in the central policy-making departments.

Thus were the rage over economic rationalism and the campaign against Australian economists set in motion. In the next few years, use of the term ‘economic rationalism’ spread at a furious pace, not only among Pusey’s professional colleagues but, even more remarkably, among the general public, for whom it became a new ‘patter-phrase’.

As the rage over economic rationalism gathered pace so did the campaign against Australian economists. To begin with, the attacks on economists (both from inside and outside academic circles) were veiled. But by the mid-1990s this was no longer the case; by then they were generally both open and strident in tone.

The mindless opponents of economic rationalism and economists, in whom Pusey and his academic colleagues generated so powerful a rage, were completely ignorant of economics but talked and wrote as if they knew all about it. Their writings contained a liberal sprinkling of gross factual error and intellectual sloppiness, and showed a contempt for research in the social sciences which was breath-taking. A reasonable assessment of their contribution to Australian intellectual life would be simply that it was worthless.

A feeble response

But if the ragers deserve harsh treatment so do their victims - Australia’s professional economists. Both the small minority of economists who entered the fray and the vast majority who kept away, need to be castigated.

Those who entered the fray consisted of some who came out against the ragers and others who came out in support. The latter group, who almost without exception were drawn from outside the mainstream, deserve particularly harsh treatment because of their almost complete lack of professionalism.

However, it is those economists who kept away from the bush-fire (a category which included almost all mainstream economists) who performed really badly. Did they keep away because they had thought things out and decided that 'keeping away' was the best thing to do in the wider professional interest? The answer would have to be 'no'. The bulk of the profession kept away, not because they considered it the best thing to do, but simply because they were gripped by uncertainties of several different kinds.

The first question which economists had to ask was: Should we try to talk to these people? Some mainstream economists said: 'Yes. We have something like a moral obligation to sort out intellectual differences, whenever they arise, by engaging in rational discussion'. Others said firmly: 'No. The signs are that these people have no proper intellectual standards and it would be wrong to pretend that we believe otherwise by offering to meet them to hammer out our differences'. Yet a third group, however, (and this seems to have been by far the largest) just couldn't make up their minds - they were gripped by uncertainty as to the best way to proceed.

The first group - who felt sure that they should talk - were not at all sure as to what they should talk about. Here was more uncertainty. Clearly there was no question of talking about 'economic rationalism' in the Pusey sense. This was a straw man if ever there was one; for probably no one, certainly no mainstream economist subscribes to 'the dogma which says that markets and money can always do everything better than governments, bureaucracies and the law'. But if not that, then what? Sorting out the issues was going to be a long and tiresome business.

Likewise those in the second and third groups - those who were either sure that talk was not the answer or who were doubtful about it - were faced with the problem of what to do instead. And none of them seemed to have any solution to the problem - still more uncertainty.

Various alternatives were tried. One was to be agreeable to the ragers, especially the intellectual members of the group, by praising their intellects and their splendid literary styles, by failing to protest when they were showered with academic honours and by offering a blind eye to their worst gaffes. (Pusey talked of 'Tony Balough' when he meant Tommy Balogh!)

Another tactic which was tried was to accept blame when there was nothing to be blamed for - to cry *mea culpa* in the most public way. Like the 'appeasement' tactic, this one was unlikely to succeed and, in fact, appears to have done nothing to stem the tide.

The benefit of hindsight

The performance of Australia's mainstream economists in the face of the rage over economic rationalism and the allied campaign against them, was, then, far from impressive. What could the profession have done instead? A clue may be found in an article which appeared in 1997 in *The Economist* under the title 'The puzzling failure of economics'. This article asked: Why has economics not done better? It concluded that a large part of the answer lay in economists' tendency 'to talk loudest about the things they understand least well and to remain silent about the underlying ideas that unite them'.

If *The Economist* was right, the puzzling failure of mainstream Australian economists in the 1990s can be attributed to their continuing to talk to non-economists about things on which they were not yet agreed while remaining silent about those areas of economics, of relevance to what was happening, on which there was no longer any dispute - which they all took for granted.

At the risk of being wise after the event, what the profession should have done was not to try to engage their adversaries, not to be nice to them, not to cry *mea culpa*, but rather to organise a campaign of its own. This would have been one designed to get across to non-economists what contemporary economics has to say about the proper economic role of a modern government - what a government should do and what it should not do in the economic sphere. And this campaign should have continued until it was clear that the message had got across - if necessary for several years.

Note:

1. Many of the points made in this article are treated in more detail in William Coleman and Alf Hagger *Exasperating Calculators: The Rage Against Economic Rationalism and the Campaign Against Australian Economists* (Macleay Press, 2000) ISBN 1 876492 .

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What is he talking about? The under-funding of defence? UnAmerican activities? Not at all. The democrats are merely proposing to pay down the national debt, long a rallying cry on the right! But paying down the debt would lead the Federal Government into owning some part of the economy ('the diminution of American liberty') and, more seriously, would interfere with the overarching priority of lowering taxes.

Lastly, news of a parrot of a different colour. A decade ago, Princeton hired an iconoclastic young political scientist, John DiIulio. The son of a cop from Philadelphia, he challenged both right and left with his research on criminal behaviour, most famously with his warnings about the 'superpredators,' the young criminals that were terrorizing American cities. In the last few years, after experiencing a religious epiphany, he has been an advocate of church-based community action as an effective tool for combating violence in inner cities. In the new administration, he has been vaulted to national prominence as Director of a new White House Office of Faith Based and Community Initiatives whose purpose is to bring churches into the government apparatus of community and welfare assistance. This initiative is intensely controversial, raising issues of separation of church and state, and of the Federal Government subsidizing religion, including fringe groups and cults. There is deep discomfort among many of the churches from both ends of the political spectrum. But perhaps most intriguing is how someone as unpredictable as DiIulio could have attained such prominence in an administration that so values loyalty to its aims. DiIulio has already been in difficulties for speaking out against abolition of the 'death' tax, citing its incentives to charitable giving, while hoping that he is not being the 'skunk at the picnic.' It seems unlikely that such heterodoxy will be common in the new administration.