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WHY ECONOMIC POLICY SO OFTEN COMES UP SHORT

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## P R O C E E D I N G S

MR. WESSEL: Good morning. I'm David Wessel. I'm director of the Hutchins Center on Fiscal and Monetary Policy here at Brookings. Our mission is to improve the quality of fiscal and monetary policy and public understanding of it.

And to that end we've been very happy to have Alan Blinder with us this year, who has a lot of experience in making economic policy. Alan has been on the Princeton faculty since 1971 teaching economics and was in Washington from January 1993 to January 1996 as one of the members of President Clinton's Council of Economic Advisors and then as vice chair of the Federal Reserve Board.

As I'm sure many of you know, 99 percent of economists think the world would be better off if we just got out of the way and let them make policy. Unfortunately, the people who make policy don't look at it that way and probably for good reason. And so what Alan is trying to do in this book he's working on, this is very advance publicity, he says he would have finished it earlier, but he's waiting for the Trump economic policy to be set before he concluded the book. And so we were joking earlier that it may be time to just set the line and move on.

Alan's been working on this project and has talked to a lot of us about this, about why is it that economists and politicians have such difficulty communicating, and what could be done to make it better. And it's a very evenhanded approach. He doesn't blame politicians for everything, which distinguishes him from most economists. And he has some criticism of economists, as well.

We live with the faith and hope that one day we will get back to serious economic policy discussions in Washington, so we look at this as an investment in that day sometime in the future. After Alan makes a presentation for about 25 minutes or so, I'll be joined on stage by Vin Weber and Jamie Raskin, who I'll introduce later. Unfortunately, Barney Frank's plane was cancelled, so he's not able to be with us. So we're really pleased that Jaime at the last minute agreed to step in.

So with no further ado, Alan Blinder.

MR. BLINDER: Thank you, David, and good morning, everybody. I was glad to see that at least some people were coming to hear me, not Barney Frank, so you're still here. (Laughter) Thank you for that.

This is the working title of a book that is, as David said, mostly written, but not quite fully

written. As it says in the title, it's tentative. In fact, I'm getting a little bit of pushback from the publisher right now on the title that it's a little bit mysterious. So here's the end of the mystery. The title is drawn from this metaphor, "Politicians use economics in the same way that a drunk uses a lamppost -- for support rather than illumination." And that captures in a short phrase exactly what this book is about and exactly what this talk, which is drawn from a few snippets of the book, is about.

Specifically, I'm going to talk at some length, but not great length, about what are really two civilizations. I mean, it's not just that economists and politicians don't talk to each other so well. They don't think the same way, they don't act the same way. They almost behave like they're from two different planets; in this case, civilizations.

Then I want to say something about what that means for policy formulation. I'll explain what the four-ring circus is when I get there, where, of course, it's the politicians that are making the decisions, not the economists, and that's as it should be. I want to be clear about that. I'm not one of those economists that think we should be in charge of economic policy.

Then more specifically about some of the impediments to getting sound economic policy, getting illumination more than support. And this being the Hutchins Center sponsorship that was on the screen before, I want to illustrate this at the end by contrasting the making of monetary policy with the making of fiscal policy.

So first the two civilizations, and I don't mean Athens and Sparta. I mean the economic civilization and the political civilization.

So before I came to Washington way back when, I used to think there was no logic in politics, it was all crazy. That's not right. There is a logic in politics, but it's political logic and I'll give you some examples of that and my two discussants can probably give you many, many more, they being better at it than I am. But it is not Aristotelian politics based on syllogisms, Boolean algebra, and all the other stuff you learned in school under the title of logic. It's a very different sort of logic.

The way economists speak tends to be logical, dry, sometimes even mathematical. That really puts people to sleep. If you want to be a politician, you need to speak in more vivid tones, use better metaphors, and sometimes, of course, a lot of spin. I'll come back to that, too.

The use of arithmetic in economics is arithmetical and sometimes you use calculus. You

have to take the derivatives, literally calculus. But just speaking metaphorical, economic calculus uses the laws of arithmetic; political calculus does not. Things have to be weighted by political influence and that's important if you want to get anywhere.

The selection principle, and this really gets to the heart of -- or part of the heart of why these two civilizations are and act so differently, the Darwinian selection principle for success in economics is based I put "IQ" in quotes, smarts, whatever you want to call it, and good ideas. Those are not liabilities in -- well, not usually liabilities in politics, but it's much more important to have the people skills that so many economists, technocrats in general, lack. You won't get elected without them.

The incentives, the professional incentives for economists that are interested in policy -- that's, by the way, not all economists; in fact, it's a minority of economists -- are to maximize social welfare. And if you're a politician, you want to maximize your election prospects, which, unfortunately, and this gets to the nub of it, are not always the same. It would be great if they were always the same. Then we wouldn't have to worry about it any of this.

Apropos of that, the main concern for economists is typically efficiency, an attribute which most of the citizenry find something between mysterious, boring, and uninteresting. If you're in politics, fairness, which sometimes means income distribution, but sometimes doesn't, is vastly more important in thinking about policy design. And in particular, to economists the main ingredient as you score a policy is whether it is good for society in some sense. Usually we try to make it a well-defined sense. Whereas if you're in politics you care a lot more about whether it sounds good, whether you can sell it to the electorate. Because if you can't, you're probably not going to get very far with it.

Time horizons, it's a trite truism that politicians have short time horizons. I don't have anything to add to that. I want to emphasize that.

So this should say "too short time horizons," economists often have time horizons that are too long. And I'm going to elaborate on some examples of that shortly.

And finally, I think this is the last one on the list, in whose interest is policy being made? Economists always try, don't always succeed, but always try to make policy in the national interest and politicians are often pushed to make policies that further narrow special interests.

So the basic theme of this book, as David was indicating, is that I think we could move

the needle a little bit towards more illumination and less support if each side would learn some things from the other. It is a -- I don't want to say the message of the book is completely symmetric. I probably have more negative things to say about politicians than about economists, but both get a share of the blame, and you'll see that in a second.

As I say, this is the surprising part since I'm an economist writing on this. I don't think I'll be banned from the tribe for what I say about economists, but maybe I will, I don't know. I think it's too late. I have tenure at Princeton. What are they going to do? (Laughter) What can they do to me?

Okay. So with that as a frame for what I mean by the two civilizations let's looking at sausage being made, how policy is made in Washington and I think in many other places. And I call it the four-ring circus. Here come the four rings.

First, of course, there's the substance of a policy. Policy-making I don't want to say always, but often, typically, starts that way. This is where economists tend to shine, this is what we dote on, and this is where we often stop. That's only one ring of the circus, however, and that's the problem.

The second ring is politics, obviously, which economists generically don't care for and don't understand very well either. That's obvious.

Third ring is message, which as I was just saying a moment ago, is extremely important in politics if you want to get anything done and it's a skill that very few economists have. We're not very good at it.

And finally, our worst failing is process, which economists just completely ignore unless and until they get into government where the process hits them over the head like 10 2-by-4s, so you cannot ignore it anymore if you're in government. But if you're in the academy, you can ignore it and, believe me, academic economists do. They treat it like going to a faculty meeting, like nothing could be more boring than that and you just try to get out of it.

The consequence of that is that when it comes to actually making policy in Washington and elsewhere, we have very little input. It's a fallacious thought that some people think that economists are dominant in economic policy. It's just not true.

So let me take those up quickly one by one. And my notation here is I put an asterisk in the places where academic economists need to learn something from the politicians.

First is that I'd almost use the word fairness "trumps" efficiency, but I'm never going to use that word again as a verb. (Laughter) Fairness is overwhelmingly more important in the general public policy arena once you get away from economists and other technocrats than efficiency, which, as I said before, tends to bore people.

Secondly, economists like to design pure, pristine solutions. There's a phrase in economics, "the first test." Solutions like that will never be adopted in the political system. Instead you're going to get what I called here for short "unprincipled compromises." What I mean by that is the head of a donkey put on the body of an elephant with the tail of a mouse. Somehow this gets cobbled together in congressional committees in a way that can pass. If you try to reverse engineer the underlying principles that went behind that "unprincipled compromise," it's pretty darn hard unless you have a good understanding of politics.

Thirdly, as I mentioned, in the political arena narrow parochial interests have very much higher weight than the common good, which is very diffuse and, therefore, not politically powerful. I'm going to give you a concrete example of that shortly.

And finally, as I mentioned, the sharply different time horizons, which are too short for the politicians, too long for the economists. And I want to emphasize especially on this topic economists tend to dote on equilibrium states. So, for example, we will tell you -- in fact, if you've had Economics 101 we did tell you -- that if you open an economy to trade, once we've got to the new equilibrium, society is better off. Not every single person in society, but society's better off.

But what we don't tell you so much is the transition can take a long time and be very messy and cause a lot of stress and unhappiness among trades' losers. That's sort of there in the footnotes or in the last paragraph of a 27-page chapter or something like that. But we mostly ignore the fact that people live in transitions almost all the time. So the interesting thing to real people is the transitions, not the equilibrium states, generally.

Message. So as I said before, you'll notice this has two asterisks. What sounds good versus -- is often not what is good. And if you want to make policy in a democracy, you need to figure out ways to make things that are good policy sound like good policy. And if you fail at that step it's going to be a very hard sell. First it's going to be a hard sell in Congress and it's going to be a hard sell to the

electorate.

And in particular, complexity doesn't sell very well. The KISS principle you probably all know -- Keep it simple, stupid -- is not dominant in academia. (Laughter) Pick up an economic journal and try to apply the KISS principle to it. It won't get you very far. But complicated messages, complicated policies are just horrifically difficult for politicians to sell, even if they believe in them, even if they believe this is the right thing. Let me give you a concrete example.

A couple of friends of mine, principally Alan Auerbach of the University of California at Berkeley, came up some years ago with the idea of a destination-based cash flow tax with border adjustment. Try saying that 10 times fast. Trying saying it one time fast. It is not a bad idea, so I'm saying this as a labeled Democrat even though it's been advanced by some Republicans. This is not a bad idea, but, boy, is it complicated to explain and, boy, is it not going anywhere in the U.S. Congress.

Process. As I said, academics either ignore or disdain it, usually ignore it. Here's my favorite metaphor. It happened right in this room. It was configured differently. I was sitting around the table at a Brookings panels. We were discussing something about the financial crisis, I can't quite remember what it was and it doesn't matter what it was. And somebody made a suggestion the government should have done blah, blah, blah. And then someone else around the table said but that's against the law. To which the economist replied then change the law.

Well, you know, things don't really work that way. What the laws say, for example, is pretty relevant. The decision-making processes set up by the Constitution are pretty relevant and you ignore these at your peril.

One reason for this is what economists and other scientists -- this is not just an economic term -- call "path dependence." Path dependence means where you wind up depends on the steps previous to that. Now, you might think that's always true. Not so. Think about what you learned in Economics 101: supply and demand curves cross at the equilibrium point. No matter where you start, you wind up at that equilibrium point.

A lot of economics is like that, denies path dependence. If you've ever been a member of Congress, and two members are sitting right here in the front row, you know that path dependence is usually -- usually -- important. Does Issue A come up first or C or B? What's the order? These are often

determinant of the outcomes, as President Trump is learning to his peril right now.

Okay, so what are the impediments to getting sound policy? I call them the Three I's: ignorance, ideology, and interest groups. So start with ignorance, which on economics is absolutely rampant.

The level of economic literacy in the population, as it says here, is astonishingly low. The problem here is that there is very little incentive, even for a smart politician, to act like he or she understands economics if the voters don't because the voters will think what you're saying is wrong, and that's not a good recipe for success in politics.

What I used to call "T-shirt slogans," and now I guess I better start calling "baseball cap slogans," sell better than complicated formulas and recipes. So an example here, here's a slogan, "Protectionism saves jobs." Well, you know, it doesn't. But to take you through the logic of why that is not true I'd have to talk for at least seven or eight minutes, part of which would mention the exchange rate, which would empty the room. (Laughter) It's not a simple story why protectionism doesn't save jobs. It seems obvious that it does.

And finally, the presidential bully pulpit is a potential educator, which is sometimes used well by a President and sometimes abused by a President, and I'll let you fill in the names for yourself.

Next is ideology, which, as you know, dies hard. Here are some examples and I'm going to go fast. The right is convinced that cutting the marginal tax rate is the magical elixir for growth. It's been disproven numerous times, but the ideology says that it's true and so to the ideologues it's true.

Second example, John Boehner -- everybody remember John Boehner? -- used to be one of the most famous people in this town, called the Obama stimulus in 2009, and he repeated this phrase 100 times, "job-killing government spending." I always found that a curious English language construction. You could have stupid government spending, ill-advised government spending, wasteful government spending, many, many adjectives. But how in the world does it kill jobs when you buy things or put people on the government payroll? But the Republican ideology at the time was that it did.

On the left, there's a belief that you hear in this town and elsewhere that repealing Glass-Steagall was a major cause of the financial crisis. It's completely wrong. There's not a shred of evidence in favor of that proposition, but it's widely believed on the left. The opposite belief on the right is that



financial markets are so efficient that the government should keep their hands off, as exemplified in the Choice Act that passed the House of Representatives not very long ago.

And this last is an example for the left or the right: 101 out of 100 economists think the way to approach the climate change is through a carbon tax. Some people on the left disdain as giving licenses to pollute and some people on the right claim that it will kill growth. Neither is right, but it doesn't matter.

Interest groups. So here's the example, what I was talking about, very stylized, on political versus economic calculus. Let's just imagine a policy, I'm not even going to say what it is, that's worth a million-dollar gain to 10 people and cost 10 million people \$2 each. If that sounds silly, a lot of specific trade restrictions, tax programs, procurement rules, and many, many other things have exactly this character, but I keep the numbers round.

So the naïve economic calculation says, well, let's see, we've got 10 million in gains, 20 million in losses, net minus 10, bad idea. Simple. The politician says, well, the 10 million people will pay rapt attention to the gain that they're just going to realize from this policy, whatever it is. The 10 million will not. Who's going to pay any attention to losing 2 bucks? And so you get a fundamentally -- what looks good politically, looks bad economically, and vice versa.

If you're not convinced by that, I think you should be. Besides that one member of Congress can log roll with another and say, okay, this is good for my 10, this is good for your 10, let's put them together and we make a coalition. But, of course, if you keep on doing this, you get, dot, dot, dot. You can fill this in with the tax code we now have as one example and there are many other examples.

Okay, finally, I said I wanted to take these general ideas and talk about the contrast between monetary and fiscal policy. I guess you see it right there in the contrast between monetary policy and fiscal. I don't believe these two people are in the same room as those two photographs were taken.

Let's start with monetary policy. The Federal Reserve has not always gotten everything right, but I think it's a fair reading of post-war history to say that monetary policy has been pretty successful, not perfectly successful. But government policies, I always say, need to be graded on the curve. And if you grade the Federal Reserve on the curve, I think it comes out pretty well.

The policy, as you know, is made by a committee of technocrats. That's the lead technocrat right there, Janet Yellen. Most of those technocrats are economists, though not all of them are. As a matter of practice, Congress does not interfere with the day-to-day or meeting-to-meeting decisions of the Federal Open Market Committee, which is the interest rate-setting committee of the Fed.

I want to emphasize here, I sort of hesitate to do it with one active member of Congress sitting right here in front of me, I want to emphasize, though, in principle, it could. Congress has the legal authority when the Fed makes a decision on Wednesday to on Thursday pass a law undoing that decision. That is not against the Constitution. It does not violate any law. And it says, for that matter, it could abolish the Fed on Thursday. If we don't like what you just did, you're now abolished and we're taking monetary policy into our portfolio. That's perfectly constitutional. Terrible idea.

What does Congress do instead? This is smart. Congress sets the broad goals for monetary policy. Congress pass laws that say the Fed should pursue stable prices and full employment. That came from Congress. Not every country's laws say that. Congress defines the Fed's powers. They're circumscribed and they're limited by law. They're both granted by law and limited by law. Congress has made those decisions over the years and, of course, exercises oversight over the Fed as it exercises oversight over every Executive Branch agencies.

And finally, there is a political influence in the appointment process. As I think everybody in this room knows, Donald Trump is going to get to appoint a new chair of the Fed in February. That's his right as elected President of the United States, and I'm living in fear of that day. (Laughter) But it is his right, so there is political influence, and, of course, has to be confirmed by the Senate.

Let's contrast that with fiscal policy. Fiscal policy, as it says, it's had its moments. It's not been bad at every instances, but, on the whole, I think most everyone would say it's not been very successful. One example is Congress never passes a budget anymore. That seems like the most basic function of a legislative body and it never happens basically.

From the macroeconomic point of view, the impact of the fiscal stance, the balance of spending and taxing, on aggregate demand is hardly ever considered by Congress. I realize this is a mistake in the slide, 2009 was a notable exception. Only on the side of the White House, which held firmly the view we need expansive fiscal policy, tax-cutting and more spending to get us out of this

horrible recession, when this went to the Congress, and especially to the Republicans in Congress, you got back it's job-killing government spending. What was that?

The tax code I already alluded to. One thing you can get, there are a few things that you can get all 535 members of Congress to agree on and this bullet is one of them: this bipartisan agreement that the tax code is a national disgrace. Once you get below that level there's nothing but disagreement. But yet, taxes never get reformed. The last time was 31 years ago.

Were you in Congress then? That was a great day for the U.S. Congress.

SPEAKER: (inaudible).

MR. BLINDER: Yeah. I want to finish with a thought experiment. Don't worry. As I say, it's not more than a thought experiment.

I'd like you to imagine that Congress assigned rewriting the tax code to a bunch of technocrats. They'd be economists, accountants, and lawyers, with a set of instructions that would say we want it to tax income or we want it to tax consumption. We do or we do not want an estate tax, a whole list of broad things about the tax code, and then you guys work out the details. And then it would come back to Congress on a fast track basis with a straight up and down vote. For Congress to then look at the whole thing that was put together by the technocrats, it could reject it and send them back to the drawing board.

I note here that this less independence that the Fed has over monetary policy. And I meant these to come in animation one line at a time, but I see I messed that up. It seems to me that the chances that this hypothetical process would give us a much better tax code than we now have are essentially 100 percent and the chances that this will actually happen are essentially 0 percent. That juxtaposition of the 100 and the 0 suggests to me that there's something wrong.

Thank you. (Applause)

MR. WESSEL: Great. Well, thank you very much for that, Alan, and particularly for making life easy for Vivian by sticking to the allotted time and preventing her from having to come up here and steal the microphone from you.

As I said earlier, Barney Frank was quite disappointed that he couldn't make it, but we were really pleased that at the last minute Jamie Raskin agreed to join us. Jamie was a state senator for

10 years from Montgomery County, Maryland; was elected to Congress last November. He got 60 percent of the vote. The Republican got 34 percent of the vote and the Greens and Libertarians split the rest.

While he was a legislator, Jamie taught constitutional law at the American University's Washington College of Law. He's a graduate of Harvard Law School.

And to my immediate left is Vin Weber, who was elected to Congress for the first time at age 28 in 1991. Before that he was an aid to a Republican senator, so he's been around for a long time. He's currently a lobbyist with a firm called Mercury.

Jamie, Vin's last election he got 62 percent of the vote. You only got 60. But he had the advantage that he didn't have two small parties running, so. (Laughter)

So one of the reasons we thought this would be fun is that we have someone like Vin, who is -- Vin's so old he was actually here when the tax reform last passed. And Jamie's young enough so he might be in Congress when we do tax reform again in 20-whatever. (Laughter)

And obviously, two people from different political parties. So, Vin, let me start with you. Alan Blinder describes this gap, this frustration that economists have that we have some answers and we do a terrible job of selling them to politicians because we don't understand how politicians make decisions. My subtext to that is we're not sure we're all that happy with what democracy has brought us.

Is what Alan's describing, A, does it sound like the way you look at the world? And B, is anything different today than it was when you came to Congress in the early '80s? Has something changed?

MR. WEBER: Well, I thought Alan's description indicated he knew pretty well how politicians make decisions. And Jamie, you can correct me if you disagree, but there's very rarely a vote where a member of Congress' primary concern is what is the impact of this particular vote on macroeconomic policy?

I voted for agriculture policy because I have a lot of farmers in my district. I thought about the impact on farmers, which is you talked about it, I'm not saying anything new, but it's the sum total of all the social policy decisions that the Congress makes ends up being macroeconomic policy.

I would push back a little bit against the notion that members of Congress are ignorant of

those macroeconomic principles, but that is not, indeed, as you pointed out, that is not why people get elected and it is not how people primarily, with some exceptions, look upon the representation role of a member of Congress. Their job is to figure out how the specific policies that go through the Congress impact the different constituencies that they represent.

And to overlay that with, yeah, but the sum total of this is a macroeconomic policy that minimizes growth or maximizes unfairness of distribution, that's not usually the consideration that goes into decisions. It comes up every now and then when you talk about the budget or another big macroeconomic issue or if we actually got to tax reform that would be the case. But most of the decisions that most members make on a daily basis are not macroeconomic decisions. They are decisions on social policy that impact specific groups of people.

MR. WESSEL: Jamie, you're now a congressional veteran, right? Two months, three months?

CONGRESSMAN RASKIN: It feels like three years, but yes.

MR. WESSEL: Yeah, yeah. So do you share Alan's view that members of Congress just are forced to ignore economic realities because the politics argue for doing something else?

CONGRESSMAN RASKIN: Well, I agree with what Vin just said, which is that, you know, very rarely does someone get up and say I'm voting this way because of macroeconomic policy considerations as opposed to what it's going to do for the people in my district or my state.

Having said that, I mean, one question that I had for Alan was the only unfair juxtaposition I thought was when he said that economists look out for macroeconomic welfare and politicians look out for reelection. And I think there's a sleight of hand going there because you're comparing the purposes of the profession as a whole versus the individual motivations of people who participate in it. You could just as well say the economists are motivated by tenure or the Nobel Prize in economics or whatever. I think you do --

MR. WESSEL: Or their consulting contracts.

CONGRESSMAN RASKIN: Yeah, whatever it might be, but politicians, I think that we -- I mean, if you look at what we are doing collectively when we all work together, there is some notion of a common good. I don't know that macroeconomic efficiency is the goal because that, of course, is just

one potential public goal among competing social goals that we might have. But there is some concept of public interest or common good, which I think motivates us as a class and even across party lines. And even when we disagree with each other, one would hope that the output is moving toward some notion of public interest. And I think we do invoke that all the time.

MR. WESSEL: Alan, as I suggested, at the root of your argument is a kind of complaint that this idea of democracy isn't working the way you think it should because we're not getting to the answers you think we should get.

MR. BLINDER: Well, I wouldn't put it that way. (Laughter) This is not an ode against democracy. In fact, I say in the manuscript several times that perish the thought that we just turn this all over to economists to make the decisions rather than elected representatives. I don't advocate all of that, anything like that.

But I do think there's a need and a possibility to I use the phrase move the needle. If you think of this metaphor of at one end it's all support, that is you economists come out and say why the politician's idea is a good one, that's what we use you for. And all of the other is just illumination, like pure economic thought with no politics. I think we could move that needle and I think we would get better economic policies, still decided by elected politicians, for sure, but with more -- what's the right way to put this? -- with more economic intelligence as input.

And, you know, I finish with the contrast between monetary policy and fiscal policy. Congress decided a long time ago to delegate "the power to coin money and regulate the value thereof." Those are the words in the Constitution, Article 1, Section 8. I think so. Yes? You say yes.

MR. WESSEL: Good thing we have -- we have to have a lawyer up here for it.

MR. BLINDER: That's what the Constitution says. The Congress delegated that in 1913, basically, to the Federal Reserve System with oversight and with those other things that I mentioned. I don't think that's such a bad model, not for everything, but for a lot of things.

MR. WESSEL: But, Jamie, the technocrats are not held in high regard by the American people at the moment. A, should we worry about that? And B, why is that?

CONGRESSMAN RASKIN: Well, I think that it's true that the classical economic technocrats are not held in high regard, but I think that that is not the most developed form of economics

we've got. I think if you look at behavioral economics, then that becomes a kind of bridge language between economists and politicians because we pay very close attention to how people actually behave and what's motivating particular groups and particular people.

So I think Alan's kind of proceeding on an old-fashioned model of what economics is. And I think that the behavioral economics, like the Kahneman guy and, you know, thinking fast and slow, I found that to be extremely useful in terms of thinking about the public choices that are made.

MR. WESSEL: Vin, can you imagine Congress ever saying we'd like to have a base-closing commission-style thing, we'll tell you how much money we want to raise in taxes, and you figure out how to do it?

MR. WEBER: No.

MR. WESSEL: And why not?

MR. WEBER: Because it takes away -- I go back to the point that I made in response to your first question. What virtually every individual member of Congress cares about is a set of policies that disproportionately impact their own districts, whether it be education policy, which I guess impacts everybody, but if you represent a university community, somewhat more; agricultural policy, housing policy, all those. To give away the ability to manipulate those policies or try to impact them for the benefit of their constituents is just something Congress is not going to do. And if you give away the power of budgeting, basically, which is I think what we're talking about, you've sacrificed your ability to have an impact on the things that matter most to your constituents.

I want to go to a little different place, if I can.

MR. WESSEL: Please.

MR. WEBER: Because I think I'm sympathetic to an awful lot of what Alan said. I think it's broader than just economics. There's really a distrust of expertise generally. And you asked me originally if things have changed. Maybe not as much as people think, but they certainly have changed somewhat. And I believe you have to look at a couple of huge, huge policy failures that the American people have seen to partially at least explain this lack of confidence in expertise generally.

In the economic sphere, clearly 2009 had a huge impact on people. You know, we were told for a long time, and I speak as a layman, but I took Economics 101 from Walter Heller, who was

actually quite a political economist, we were always told, well, a real crash like that probably can't happen again. I mean, we can have recessions, but, you know, we've fine-tuned our economic understanding enough so that we're not going to go through anything like we went through in the Great Depression. And indeed, it didn't become a Great Depression, but I think it shook people's confidence an awful lot in economic expertise to see as big a collapse as we saw at that time because they thought that that level of collapse was not possible.

And outside of the economic zone, Iraq and our failures in the war in the Middle East convinced people that foreign policy experts don't know what they're talking about. Trump talked about that very directly in the campaign, more so about foreign policy experts than he did about economic experts.

But there's a general decline, it seems to me, in the public's willingness to listen to expertise, which is a change that's occurred over 10, 15 years, I would say.

MR. WESSEL: Mm-hmm. Jamie, Alan, correctly in my experience, observed that most economists aren't interested in policy. But let's say you were talking to a roomful of young economists who represented the minority of economists who actually would like to make a contribution to public policy. What would you tell them about how to have the most favorable impact? What is it that you would recommend that they do?

CONGRESSMAN RASKIN: Well, this raises one of the questions that I had for Alan, which is that -- I mean, I understand it's kind of a stylized vision, but it implies that economists are all together on the one hand and politicians are all together on the other hand, and, of course, you know, the progressives have their economists they go to and the conservatives have their economists they go to, and they're different schools of thought within economics and within politics. So, I mean, I guess my real politic advice would be attach yourself to those members of Congress or those political parties or factions that you agree with most and whose work they need -- or rather who need your work.

Because, I mean, that's kind of the way that I see it, people seek out the economists. Well, I guess that's your lamppost theory, they seek out the economists who will give them the support they need. Although real politicians look at lampposts the way that Keynesians look at lampposts: as public spending in a city in order to, you know, make something happen. (Laughter)



But, I mean, I don't know that -- I mean, certainly in Washington, I mean, again, I've only been in Congress a few months, but I don't know that there are just neutral economists out there that people would go and say let's go find a group of neutral economists to help us here with this problem. They would go to the economists with the economic policy groups that are aligned with a particular direction.

And for that proposition I would go back to Adam Smith. I mean, you know, before he wrote *The Wealth of Nations*, he wrote *The Theory of Moral Sentiments*. Right? And he thought that economics existed in a neighborhood of different currents of thought and feeling in society, and so that economics never was supposed to be an abstract mathematical or scientific discipline away from value commitments of The Enlightenment. And do I think that there has been a branch of economics which has moved in a different direction, which has become technocratic and a bore.

MR. WESSEL: Right, so let's set aside the guys who think economics is physics for a moment. I mean, Alan, I think Jamie is making a point that you made, that if economists choose to say, well, I'm either for the left or I'm for the right, and I'm going to assemble the best evidence for my favorite politicians to help justify their positions, then we've kind of degraded the quality of economic advice. Right?

MR. BLINDER: Right, right, and that happens. I just want to say, Jaime is right that many economists have their own political leanings, biases, whatever you want to call them. They span the spectrum. Well, there aren't too many on the far, far left, but there are a few, all the way to the far right, and everything in between. But -- the "but" is important here -- there is a vast range of issues in which the disagreement within the economics profession is pretty darn small, even going from left to right, which is not true in the policy as a whole.

Art Okun, who lived and worked here for many years, said in one of his books, I'll paraphrase, I don't remember the exact quote, but the notion was that on many public policy issues a huge majority of economists would unite on the opposite side of a huge majority of Congress. And that remains -- it was true when he said it in 1970 and I think it's even more true, or at least as true as it is today.

I gave the example in the talk of a carbon tax. There's basically no disagreement. You

could have Glenn Hubbard, Greg Mankiw, and Marty Feldstein up here, and they would say exactly the same thing about a carbon tax as I would say. You'd be hard-pressed to find that in Congress anywhere.

CONGRESSMAN RASKIN: Well, I think that that would be a very powerful mode of intervention in public policy debate to get right to left convocations of economists to say we all agree this doesn't make any sense. To the extent that you accept our discipline, which I think most people do, we render this advice in a nonpartisan or cross-partisan, cross-ideological way. I think people would be willing to hear that.

But I think the perception that politicians have is that economics as a profession has become as corrupted and saturated by politics as everything else and economists are for hire by particular special interest groups or companies or what have you.

MR. WEBER: Aren't we seeing -- I put it as a question, although I have a definite opinion on it, aren't we seeing a real-live case study of this in the border adjustment tax debate going on right now? Where you have a pretty wide range of economists saying this was a good idea. You even had some leaders in Congress trying to champion it and still it's failed. I believe it's failed. Maybe it's still alive, but it doesn't seem to be very alive to me. And it's failed because of exactly the dynamics that we're talking about here.

And my concluding point on that, all those interests that didn't like the border adjustment tax have their own economists who've done their own studies to back up -- to lean on that lamppost.

MR. WESSEL: Well, I mean, just two points. One is, I mean, even I think in today's -- some newspaper, one of the newspapers, Larry Summers and George Shultz speaking for a broad coalition have come out for a carbon tax, so there is some things. And then some interesting things going on here where people at Brookings and people at AEI have realized that they would have more impact if they would both say the same thing. There was one on poverty and recently one on paid family leave.

I think, Vin, I think you're right in part about the border adjusted, just kind of cash flow, you know, VAT, whatever -- talk about message, there's one. But I think that's a better example of how if you want to do something novel and complicated in economic policy, you have to spend a lot of time thinking about how you're going to explain it to people. It doesn't look to me like the proponents of this in Congress, they got outflanked by the opposition before they could even figure out -- I mean, it was as if

they said we're going to tell Trump this is a tariff, we're going to tell the WTO it's not a tariff, and they'll never talk to each other.

MR. WEBER: But it's instructive to think about why the proponents of the border adjustment tax were promoting it. They were not -- they bought the argument that it might be good macroeconomic policy, but that's not why they were for it. They were for it because they wanted the revenue to do other things.

MR. WESSEL: Right, exactly. Exactly.

SPEAKER: That's what I was going to say.

MR. WESSEL: Alan, what role does the press play in all of this? Favorable or unfavorable?

MR. BLINDER: It's very variable. I mean, let me just say a couple of things.

First of all, the economic financial press, which is the part of the press that I generally interact with, is much, much better than the political press. The political press only wants to know who's hitting who over the head and who's getting the upper hand overall and who hates who.

With the financial and economic press you have a reasonable prayer for getting ideas out. Ideas don't sell newspapers or get cable TV viewers. So in the cacophony of what I'll just call in an overly friendly way political discourse -- you could use more negative terms for it -- that tends to get drowned out.

So, I think we have a decent financial economic press. It could be better. A lot of them could learn more economics than they learn and that would probably be good. And if they were better, they'd help the incapable economists to explain what a destination-based, border-adjusted, cash flow tax was. I don't think they would call it that.

So I think the answer to your question is helpful, but in a pretty small way. In a pretty small way because it's drowned out by other much louder voices.

MR. WESSEL: Jamie, before we turn to the audience I want to ask you, it's almost on point. So it strikes a lot of people like me, who've been around Washington for a long time that being a member of Congress right now must be extremely frustrating. You know, those of us who were in the press take great heart from the Gallup polls that show confidence in institutions because no matter how

bad the rating of the press is, you can always count on Congress being at least one or two percentage points lower. Gridlock and failure to compromise and personal Norm Ornstein calls it tribalism seems to have paralyzed the Congress.

You chose to run for Congress. You've been there for a while. Do you come home every night and say this was a big mistake, I wish I hadn't done this? Has any of your idealism left after three months?

MR. WEBER: Be careful how you answer that.

CONGRESSMAN RASKIN: Well, you know, I came from the Maryland State Senate. I mean, I was a professor of constitutional law for a quarter century, but I came from the Maryland Senate and there, of course, I was in the majority and I was the majority whip. And I saw a government work, you know. I saw politics work. You know, the General Assembly enacted more than 100 of the bills that I introduced. We abolished the death penalty. We became the first state union to pass marriage equality without being told they had to do so. The State Supreme Court, we passed the toughest gun safety law in America. We did great environmental legislation. We created benefit corporations, which is now a law that's in a majority of the jurisdictions. So I got a real taste for legislation there.

But it's true, today I'm as much a demonstrator as a legislator. I march every Saturday, the Women's March, the Science March, the Climate March, the airport protests, you know. (Laughter)

MR. WEBER: Anyone march in the economists' march, though?

MR. WESSEL: When was that? (Laughter)

CONGRESSMAN RASKIN: Well, I read in this morning's paper there's a group that will set up the march for you.

THE WITNESS: Yes.

CONGRESSMAN RASKIN: So you can call them. You got an idea, Alan, they'll do it.

MR. WESSEL: It's part of the Trump job creation program. (Laughter)

CONGRESSMAN RASKIN: We need the bipartisan economists march. (Laughter) I will go to that. I will make a chance for you at that one.

MR. WESSEL: It's going to be in the backyard here. There's room for about 12 people. (Laughter)

CONGRESSMAN RASKIN: So I think, I mean, it's sobering being in the minority, but also being in a legislative context where we don't have hearings, where we don't have witnesses, where bills are voted on at the last minute coming out of dark rooms where nobody even really reads it beforehand. That's a depressing thing. But I think we're going to get through it.

And for me, my faith in constitutional democracy has been vindicated because of the suppleness and the resiliency of so many democratic institutions, including the media, which is not the people's worst enemy, but the people's best friend, very clearly. And the courts, which have stood up on things like the executive order and Congress itself and bicameralism and the freedom of speech and the separation of church and state. These are resilient, tough institutions.

But, you know, I think that Alan's book is going to have a meaningful role to play because it does raise the question of whether there -- you know, we can overcome today's contempt for science and treat economics, I don't know if you guys consider it a science or not, but at least it's a discipline, a knowledge discipline that's something that we all can use together and not just turn into a target for polemics.

MR. WESSEL: Vin, if some 28-year-old from the 2nd District of Minnesota came to you and said I'm thinking running for Congress would you encourage him or her or not?

MR. WEBER: Yeah, sure, absolutely. I mean, it's a frustrating -- I sympathize with your frustrations, but it still is a great opportunity to try to have some impact, positive impact on the society around you. It's frustrating because it's harder to have that impact, but there's still not a better place, I think, to actually try to do something good consistent with your own values. And maybe you can help heal some of this excessive bitterness, divisiveness, and partisanship that has made it impossible to deal with some of these problems.

I'm not one to just uniformly condemn partisanship. We have parties for reasons. Social scientists used to think that a strong party government was what we wanted to have in this country. But we clearly have other forces today that are pulling us apart and making it impossible to pull together on a few basic policies. And I think, you know, if somebody wants to run for Congress, that's what I would tell them, think about that.

You're an educator, Alan, I'm not, but I lecture regularly at the Humphrey School at the

University of Minnesota to the graduate students there, one of whom is my daughter who got her master's in public policy. And whenever I lecture the first thing I always say to them is try to figure out what the people you disagree with really believe, not the baseball cap version of what they believe, but what it is they really believe. Because that's what's lacking around here, the lack of respect for the motivations of people.

I mean, we always disagree on specific policies, but we used to at least -- I think we used to have more respect for the motivations of people that disagreed with us. They really want to do the right thing, they just don't want to do it in the right way. Well, now we think no, no, no, they don't want to do the right thing. And that's what I would encourage somebody getting into politics today to try to take on. Don't turn your own beliefs inside out, but try to figure out what people that disagree with you really believe and that'll be the first step toward maybe getting to a politics that is more constructive for the country.

MR. WESSEL: Great. We have a lot of people. If you have a question, raise your hand. We've got a couple people with mics. I'm going to take like two or three questions at a time and then we'll see.

Anna, why don't you start down here? There's a woman in the second row. And Mike, there must be someone -- someone in the back raise your hand. The gentleman against the wall.

MS. KANOWA: Good morning. Thank you very much.

MR. WESSEL: Please tell us who you are.

MS. KANOWA: I'm Juno Kanowa (phonetic). I'd like to kind of take issue with the idea that all congressmen are working on fiscal policy that would benefit their constituents. Paul Ryan has a fiscal philosophy and I would suggest, as someone who's familiar with Wisconsin, that the practicalities of that in the short term would not benefit his district. And yet, as brave as he is on the Knights of Columbus circuit, for over 20 years the people in this district vote for him, although he advocates a fiscal policy that is not in their interest and he knows it.

MR. WESSEL: Yeah, thank you. Right. Sir?

MR. SHERRETTA: Robert Sherretta with International Investor. Going back to the survey that you brought up, I think if economists or the Federal Reserve was also placed as a possible

list, they would probably come in somewhere where the banks on Wall Street does. I think sometimes economists overestimate what the American public thinks of them at this point, especially following the great economic collapse.

So my question is, is there a place or a way that economists can do a better job of putting their theories, their forecasts out before the public than they have so far? Is there, if not a media outlet, is there another way that they can use social media or whatever to get their message out to a public so they can demonstrate how they feel?

MR. WESSEL: Thank you. Someone else? The gentleman here in the middle. Well, wait for the mic because we have them. Mike is coming with the mic and Anna's coming with the mic. You can have two mics, but only get one question.

SPEAKER: Thanks for the mic, Mike. (Laughter) So my name is Aaron. My question is the healthcare bill, there's clearly -- it's been done totally in a partisan way. I'm wondering, my question's more for the sitting congressman. If you think there's any room for some bipartisan work on tax reform and economic policy once the healthcare fight is over? Thank you.

MR. WESSEL: Thank you. Vin, why don't you start with the Paul Ryan question?

MR. WEBER: Well, I just disagree. I know Paul Ryan really well. He worked for at one time. He is an exception in the Congress in that he does primarily -- is primarily motivated by macroeconomic views. Most of the members of Congress I talk about, as I said, are probably not, but Paul has a very well-developed view of what is in the good of the country from a macroeconomic perspective, and those are the policies he pursues.

Now, you probably don't agree with him that those policies will achieve what he thinks they'll achieve, but he thinks they'll achieve higher levels of economic growth, which will benefit everybody. That's very much what he believes.

SPEAKER: (inaudible;)

MR. WESSEL: Right, right. So how does he get reelected proposing things that most congressmen would be afraid to advocate?

MR. WEBER: Because he argues the greater good. I mean, he believes that you can cut the specific programs that benefit all these people in his district and that the economy generally will

grow faster and everybody will be better off. I mean, he's making exactly the argument that Alan says economists should make, just makes it from his ideological point of view.

MR. WESSEL: Or an alternative view is that people vote for congressmen on something other than their policies.

MR. WEBER: That's also possible.

MR. WESSEL: Alan --

MR. WEBER: But that is what Paul does.

MR. WESSEL: Yes.

MR. WEBER: I've seen him on the stump, that's what he does.

MR. WESSEL: Right. Alan, so I think the gentleman in the back asked really two questions. One is, so the Fed has got its own problems with the public trusting it. It's probably not as bad as Congress, but it's definitely not gone in the right direction since the Great Recession. And maybe a little more than what you said before about what are the ways in which, other than, of course, speaking on the Brookings stage, economists could do a better job of getting the word out to the public?

MR. BLINDER: You know, I heard that -- first of all, you're right, there is polling and the Federal Reserve is polling pretty low now, like down around the range of the IRS, which is not really. (Laughter) I don't think it's well deserved, but that's where it is, so you're right about that.

You know, I think it's close to hopeless for economists to get public fora or even one forum where they will have and hold a large audience that will listen to good economic policy. I think the last person we had that had the ability -- we in the profession had the ability to do that and he was very far right was Milton Friedman, who had a popular television show. You may be too young to remember, but I see you're nodding. You know, the closest person to that now is at the complete opposite end of the political spectrum, my former colleague Paul Krugman. But he himself has become a very polarizing figure, so nobody on the right will listen to him even for a millisecond.

And, you know, the truth is, the hard truth is, and politicians understand this very well, is that moderation tends to be boring. It's extremes that get attention in the media and elsewhere, and I don't think you can beat that. I mean, if we're going to beat that it's going to take a generation or two of -- and I'm not optimistic about this -- either of much better and more extensive economic education to build



economic literacy in the K through 12 educational system, so you're talking about a generation minimum. If we start today and get it right, which is impossible, you're talking about a generation, so you're talking about something that's way, way beyond anybody's reasonable horizon.

MR. WESSEL: Actually, I think I disagree with you, Alan, on that. I think two things.

One is a little more humility on the part of economists would be welcome about what things we actually know -- (Applause) -- and what things we don't know. And secondly, I think that we're seeing examples of people using social media and videos in ways to reach people that we don't yet know how successful they'll be and if these same channels can use to distort and demagogue as well. But I'm a little bit more hopeful that -- and I think there are economists who are trying to do that. How can I describe what my policies are in a way that an average voter or even an average member of Congress can understand?

Jamie, any chance of anything bipartisan on healthcare and tax reform?

CONGRESSMAN RASKIN: Well --

MR. WESSEL: I guess there's no question, we can go on.

CONGRESSMAN RASKIN: Let me say something about, first, the health reform because I think -- I mean, the policy we've got, the Affordable Care Act, is probably not a policy that any economist would have designed from the beginning or any rational economist, although actually I guess in some sense it was modeled after what they did at the Heritage Foundation, right, with the individual mandate and Romney Care in Massachusetts.

But, you know, I'm not seeing any grounds for a bipartisan compromise there. You know, the GOP plan, although it doesn't purport to go back to just a free market in healthcare, it moves dramatically in that direction by throwing, you know, 24-, 23 million people off of their health insurance and abolishing the preexisting coverage provisions in the law. And that's just going to be indigestible to Democrats. I mean, you know, a majority of the Democratic Caucus in the House now has signed on to Congressman Conyers' Medicare for all, single-payer plan, which is basically what takes place in most of the advanced democracies around the world, which have come to the conclusion that healthcare is not a market like other markets because when you have a heart attack you don't have time to be shopping around for the best hospital or the best thoracic surgeon or what have you.

So I think that there are really different schools of thought about economics.

I'm not seeing it on taxes. You know, that would have been an opportunity I think for the administration to come in with an economic theory and a philosophy, even if it's not to turn it over to a group of economists. But instead, what we got was, you know, abolish the estate tax, which applies to like 1 or 2 percent of the public now at most and it's basically like the Baron Trump provision; and then abolish the alternative minimum tax, which everybody knows was the only reason that the President paid any taxes at all for the year that mysteriously leaked out to Rachel Maddow. So there's certainly no grounds for a compromise on that.

However, I'm reading this very good book by T.R. Reid called *A Fine Mess* about the tax policy system. And I think that if somebody could break the sound barrier and penetrate through the clutter, there would be some basic economic precepts that (inaudible).

MR. WESSEL: So, Vin, on taxes, Alan made a good point. You could probably get all members of Congress to sign on to a one-sentence declaration that our business tax code or corporate tax code is broken.

MR. WEBER: And the personal.

MR. WESSEL: Well, let's just start with the business one.

MR. WEBER: Okay. Where you going with this?

MR. WESSEL: But Alan made the point that despite that they seem unable to find a way to come up with any kind of compromise. Is that because the system's broken or is that just because this is really hard and there are a lot of competing interests and it's going to just take a lot of time to sort that out?

MR. WEBER: Well, I think I agree with Jamie on everything he said. I think on tax reform there should be a basis for coming together, but the polarization that's affected everything else, this prevents them from sitting down and talking about it.

Healthcare I feel rather different. I don't know why the Democrats would ever think about joining with the Republicans on healthcare. This is purely political. Democratic ownership of the healthcare issue arguably cost them the Congress in the 1990s, it cost them the Congress again in the Obama administration. The Republicans are now desperately anxious to take ownership of this politically

lethal issue. Why in hell would the Democrats want to cooperate on it? (Laughter)

So excuse me for departing from the economic discussions to inject politics for a second. But tax reform is different and it's hard, it's difficult. The revenue problem is very real, but there should be some way of working together. But I'm not predicting there will be.

MR. WESSEL: Take a few more. The gentleman in the blue shirt there and then why don't you go in the back? Mike, why don't you take the one in the back and Anna can take the one in the front? And then we've got a couple in the back when you're next. The woman in the back with glasses on her head, if you raise your hand so Mike can see you.

Sir, go ahead. Tell us who you are.

MR. LOBE: Alan Lobe (phonetic), Washington attorney. So an interesting case that Dr. Blinder may have covered in his book, but if he hasn't might want to comment on now, is what happened with environmental economics. As we got into the early 1960s, there was a pretty much settled case, the market failure externalities model -- I don't need to explain -- and then along comes Coast (phonetic). So you have all these ideas percolating in the 1960s. You get to 1970 Clean Air Act, *voilà*, none of this is used. And then the economists spend the '70s and '80s trying to get back with regulatory reform, trying to push environmental economics.

It'd be interesting to hear your perspective on what happened during that period and why were the economists not listened to and what basically about the political dynamics did they not understand? And, you know, what was the divide that kept the economics from coming in? Some of it eventually came in, in emissions trading, but, you know, I'd like to hear about that.

MR. WESSEL: Right, okay. Someone over there?

MR. BABB: Nathan Babb (phonetic) with the Board of Governors. And I was interested on the topic and the mentioning of behavioral economics. So to Jamie, your mentioning of thinking fast and slow, I was interested in hearing how that has affected you thus far in Congress.

And to Alan, how has the reception been with behavioral economics at Princeton, whether that's in the Econ faculty and/or the Woodrow Wilson School?

MR. WESSEL: Okay, two questions. In the back?

MS. MENGES: Thank you. My name is Nancy Menges. I'm with the Center for Security

Policy.

And a question, I'm going in another direction in terms of trade policy. And in the last election free trade got a really bad rap, the Trans-Pacific Partnership, NAFTA. And I'm actually very concerned about what the outcome of all of that is going to be in terms of employment, which could really suffer as a result.

THE WITNESS: Great, thank you. Alan, do you want to start with the successes and failures of economics and environmental regulations?

MR. BLINDER: Yeah. In 1987, I published a book called Hard Heads, Soft Hearts. And I had a few examples of abject failures of this approach, one of which was environmental economics. The obvious cure for what we want is called externalities.

There has been huge improvement on that front since 1987. The sulfur dioxide remission program -- that's not what it's called -- is a good example. But in general, you find a lot of people, but not all -- I'm coming to this in a second -- in the environmental community much more open or even favorably disposed to effluent taxes and things like that, charging for what -- I had this on the slide, licenses to pollute, which was considered an absolute no-no in the '60s and the '70s and into the '80s in the environmental community. There's much more receptivity to that, but it hasn't completely swept away the other side, and that's why I mentioned the licenses to pollute.

The other reason that economists couldn't sell those ideas at all basically in the '60s and '70s and into the '80s was the "T" word. We don't hesitate to call it an environmental tax or an effluent tax or something like that. That's bad salesmanship. So we have to bite our tongues any time the T word starts coming out of our mouth and call it cap and trade or some other euphemism.

That objection is still there and that, frankly, is why we're not getting any carbon cap and trade. It's not so much the objection of the environmentalists for the license to pollute that's having the political influence. It's the objection to the taxes that would be raised.

Now, you might think -- and I won't go on with this too long -- when George Shultz and Jim Baker and a bunch of others, if you were really naïve -- I wasn't this naïve -- when they came up with this plan to put on a carbon did they even call it tax charge?

MR. WESSEL: Yeah, revenue neutral.

MR. BLINDER: Yeah, but then to rebate the money back as a social dividend to the population that would obviate the objection to raising taxes, but it didn't. It still has the T word in it and it landed like a lead balloon.

MR. WESSEL: Jamie, what have you learned about behavioral economics and how does it influence your thinking?

CONGRESSMAN RASKIN: Well, there are a number of policy areas which I think are crying out for economic analysis and specifically behavioral economic analysis. I think of the war on drugs specifically as one that we talk about in our Judiciary Committee. You know, lots of economists have come out for the decriminalization or the legalization of marijuana a long time ago, but I think we need an updated, sophisticated analysis of the marijuana markets, especially since we've got this horrible patchwork now where it's basically legal or decriminalized in a bunch of states; it's still criminal in other states. And it creates all kinds of bizarre economic dynamics.

Another one where I would love to see some serious behavioral economic analysis is on the whole question of campaign finance and how politicians spend their time and what are the different incentives and inducements that are built into the system we've got now. You know, as a constitutional law professor I have written extensive critique of the *Citizens United* decision and parts of *Buckley v. Vallejo*, and have made an argument for publicly financed elections. But I think what we really need is an economic understanding of rent-seeking strategic behavior by special interests in Washington and how that distorts the energy and the time and the focus and the attention of actual policymakers and people who are in Congress.

So I think about it a lot. And, you know, the reason I very much applaud what Alan is doing because we need real serious, rigorous economic analysis today to help us get through some problems that are totally weighted down with just ideology, and the war on drugs is a good example of that.

MR. WESSEL: So, Vin, on trade, so there's never been a great consensus among the public that trade is good for us. Every one of these trade bills has been contentious. Economists have long warned us that there are going to be losers as well as winners. But we do seem to -- there seems to be a sea change. There used to be enough people in Congress who thought, well, we can compensate

the losers. Whether they did or not is another thing. On balance, as Alan -- as economists generally believe, free trade is good for us even though there's some transition costs, but that consensus seems to have really fallen apart.

How serious is that and do you worry about that?

MR. WEBER: It's very serious. The other thing that we always had was an elite consensus at the very top. You know, President Clinton completed GATT and NAFTA, which were begun by Republican administrations. President Obama was moving ahead with TPP and TTIP. There were problems -- partisan differences below that level, but we had presidential leadership that more or less believed in the same thing, which was multilateral agreements moving toward a more liberal trading order. We argued about labor standards and environmental standards, but there was more of a consensus in that. This president is the first really, I would argue, to depart from that consensus. And in so doing, has probably changed the Republican Party more on that issue than on anything else that he's done.

Having said that, I'm not despondent because I think if you talk to most of the Republicans in the Congress, they will still say, well, we still believe in the basic elements of -- I hate to say "free trade" because somebody comes back and says, well, it's not really free. I know that. Liberalized trade, most Republicans still believe in that in the Congress. But they recognize that the President -- you know, a president claims his mandate and sometimes he claims a larger mandate than he really deserves. But this president deserves to say, yeah, I put the trade issue front and center in front of the Republican primary voters and in front of the country. And Hillary Clinton ended up agreeing with me on it. If I've got a mandate on anything, it's on trade.

So the free traders, if you want to use that term, in Congress have to figure out how to work with him to move toward -- to not dismantle a liberal or relatively liberal trading order in reaction to what happened in the election last year. And I think that they would like to do that. Most of the President's advisors are telling the Republicans in Congress, I don't know what they're saying to the Democrats, but they're telling the Republicans we really believe in trade promotion, we believe in trade liberalization, we just don't believe in multinational agreements. We don't even believe in bi-laterals.

That's not my formulation, but I think I wouldn't give up necessarily on the notion of

America still leading toward a more liberal trading order. I think it's challenged now, particularly in my party, relative to what it used to be. But I'm not despondent.

MR. WESSEL: Alan, did economists oversell the benefits of trade and underappreciate the transition costs?

MR. BLINDER: Yeah, I think that's right. They undersold the losing side of trade, always recognizing it, but underselling it. Didn't push hard enough, not that we would have won if we pushed harder, don't get me wrong, for more compensation of the losers. Trade adjustment assistance is just one example. But, you know, I discuss that in the book.

Trade adjustment assistance has the fatal handicap of being a program for labor that labor doesn't want. So if you bring forward into the Congress a pro-labor policy and the labor movement doesn't want it, it's dead on day two, if not day one. So we economists could have talked more. I've talked about it a lot, but we could have talked about it and pushed for it more, but I don't think it would have gotten anyplace.

The problem, it's just what Vin said, lately is Trump. Well, that's true of a lot of things, but on this particular thing. The two parties have varied over history. You can go back into the 17th, 18th, 19th century, of which was the open to the rest of the world party and which was the xenophobic America First party? In recent history, the Republican Party has been the pro-trade party and the Democrats have been hostile to it. Bill Clinton passed NAFTA with only, I don't remember how many, but mostly Republican votes, not mostly Democratic votes.

MR. WESSEL: Jamie, is there a progressive case for this? Oh, I'm sorry.

MR. BLINDER: But now, because of Trump, the Republican Party has turned protectionist. The Democratic Party is still protectionist. You know, democracy will give you protectionism.

CONGRESSMAN RASKIN: You know, the original case for free trade articulated by Adam Smith based on comparative advantage and division of labor and so on was a progressive, liberal case. It was a case against mercantilism. And the idea was that free trade and free intercourse among the nations would lead us beyond war and militarism and the idea that every nation was in competition against every other nation. And I think that that basic vision still has vitality in terms of liberal and

progressive forces, but the history has been that the free trade agreements have been written without meaningful investment in trade adjustment assistance and retraining people so that they're not thrown away.

And that is, you know, perhaps the difference in how politicians and economists would look at it. The politicians would say these are our constituents and our citizens and we've got to deal with their reality. And maybe I'm just showing my partisan stripes there. I think that the progressive position is one that continues to be for international commerce and exchange and economic intercourse, but doing it in a way that uplifts the environmental standards, the workplace standards, the living standards of working people rather than one that creates a race to the bottom.

And, you know, when Trump pulled the plug on the TPP and his moves against NAFTA, I mean, I don't think there's a lot of cheering on the progressive side of the spectrum because he's not making any of those changes in a way that's actually going to benefit working people in this country.

MR. WEBER: I don't want to be too argumentative, I want to be a little argumentative. You can't get past the fact that the Democrats would only get 28 votes to give their president trade promotion authority. I acknowledge that this president has challenged our party in a negative way on trade, but we've got to do something to rebuild at least some level of support in the Democratic Congress for trade promotion authority or trade agreements.

CONGRESSMAN RASKIN: And I agree with that and I think that, again, it's about reviving the original concept of what free trade was about and what it could mean for international peace and for the coalition of nations in a way that doesn't overlook or diminish the reality of people's living situation in Indian and Illinois and Pennsylvania and Ohio.

MR. BLINDER: Let me just make one more --

MR. WESSEL: Please.

MR. BLINDER: This comes back to the point about abysmal ignorance. The President of the United States is now selling and has succeeded in large measure selling the American public on the notion that bilateral trade deficits indicate something is bad. Bilateral, just between two countries, never mind the whole world. That's crazy. That's absolutely -- I run a very large bilateral deficit with my grocery store and a bilateral surplus, not that large, with Brookings. (Laughter) That's not bad. That's



the way things work. It's life. It's economic life.

MR. WEBER: Well, budget deficits generally are trashed and I assume a lot of economists would say that budget deficits are not always bad any more than taking a mortgage on your house is always bad.

MR. WESSEL: Well, with that, I want to thank Alan Blinder for proving that economists can speak to the public in clear ways. (Laughter) And for a former and current member of Congress for demonstrating that not all members of Congress are idiots. (Laughter)

Thank you all for coming. Please take the papers at your seat and put them in the back.  
(Applause)

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