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The U.S. Economic Policy Debate Is a Sham

By Betsey Stevenson & Justin Wolfers - Jul 23, 2012

Watching Democrats and Republicans hash out their differences in the public arena, it's easy to get the impression that there's a deep disagreement among reasonable people about how to manage the U.S. economy.

Nothing could be further from the truth.

In reality, there's remarkable consensus among mainstream economists, including those from the left and right, on most major macroeconomic issues. The debate in Washington about economic policy is phony. It's manufactured. And it's entirely political.

Let's start with Obama's stimulus. The standard Republican talking point is that it failed, meaning it didn't reduce unemployment. Yet in a survey of leading economists conducted by the University of Chicago's Booth School of Business, 92 percent agreed that the stimulus succeeded in reducing the jobless rate. On the harder question of whether the benefit exceeded the cost, more than half thought it did, one in three was uncertain, and fewer than one in six disagreed.

Or consider the widely despised bank bailouts. Populist politicians on both sides have taken to pounding the table against them (in many cases, only after voting for them). But while the public may not like them, there's a striking consensus that they helped: The same survey found no economists willing to dispute the idea that the bailouts lowered unemployment.

No Support

Do you remember the Republican concern that Obama had somehow caused gas prices to rise, a development that Newt Gingrich promised to reverse? There's simply no support among economists for this view. They unanimously agreed that "market factors," rather than energy policy, have driven changes in gas prices.

How about the oft-cited Republican claim that tax cuts will boost the economy so much that they will pay for themselves? It's an idea born as a sketch on a restaurant napkin by conservative economist Art Laffer. Perhaps when the top tax rate was 91 percent, the idea was plausible. Today, it's a fantasy. The Booth poll couldn't find a single economist who believed that cutting taxes today will lead to higher government revenue -- even if we lower only the top tax rate.

The consensus isn't the result of a faux poll of left-wing ideologues. Rather, the findings come from the Economic Experts Panel run by Booth's Initiative on Global Markets. It's a recurring survey of about 40 economists from around the U.S. It includes Democrats, Republicans and independent academics from the top economics departments in the country. The only things that unite them are their first-rate credentials and their interest in public policy.

Let's be clear about what the economists' remarkable consensus means. They aren't purporting to know all the right answers. Rather, they agree on the best reading of murky evidence. The folks running the survey understand this uncertainty, and have asked the economists to rate their confidence in their answers on a scale of 1 to 10. Strikingly, the consensus looks even stronger when the responses are weighted according to confidence.

The debate in Washington has become completely unmoored from this consensus, and in a particular direction: Angry Republicans have pushed their representatives to adopt positions that are at odds with the best of modern economic thinking. That may be good politics, but it's terrible policy.

The disjunction between the state of economic knowledge and our current political debate has important consequences. Right now, millions of people are suffering due to high unemployment. Our textbooks are filled with possible solutions. Instead of debating them seriously, congressional Republicans are blocking even those policy proposals that strike most economists as uncontroversial.

Raw Politics

This inaction has no basis in economics. Instead, it's raw politics -- a cynical attempt to score points in a phony rhetorical war or a way of preventing their opponents from scoring a policy win.

The debate about the long-run challenge posed by the federal budget deficit has also become divorced from economic reality. The same panel of economists was almost unanimous in agreeing that "long run fiscal sustainability in the U.S. will require cuts in currently promised Medicare and Medicaid benefits and/or tax increases that include higher taxes on households with incomes below $250,000." Only one in 10 was uncertain. None objected.

Likewise, popular tax deductions such as that for mortgage interest didn't fare well in the surveys and would be on almost any economist's list of targets for reform. Yet neither party is willing to propose such policies.

The consensus, of course, can be wrong. On the probable consequences of economic reforms, though, leading economists are more likely to be right than politicians running for re- election. Their solidarity needs to be taken seriously. Too much of what passes for economic debate in Washington is the product of faith, not evidence.

It's time to put economics back into the economic debate.

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