

THE ECONOMIC CONSEQUENCES OF ECONOMISTS

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WASHINGTON BEDTIME STORIES The Politics of Money and Jobs By Herbert Stein The Free Press. 381 pp. \$19.95

WE HAVE ABOUT 100,000 self-described economists in the nation, 15,000 of them huddled in Washington. Herbert Stein leads the Washington huddle. He ran part of the Committee for Economic Development for two decades, served on the Council of Economic Advisers under Nixon and was its chair, and sits now at the American Enterprise Institute. This makes him a "conservative" economist and a streetwise fellow, the street being Pennsylvania Avenue. He stands out among economists by writing superbly well and by thinking more than most do about what he writes. His book collects thoughts from recent columns in The Wall Street Journal and after-dinner speeches to conferences. He does a lot of dinners at conferences: "The Internal Revenue Service believes that a conference including a lecture by an economist cannot be for the purpose of pleasure and therefore must be a deductible expense."

Stein has watched the growth of the economics industry from the 1930s, up to a size about equal to the motion picture industry. The big question is whether this is a Good Thing. Stein's answer is a cautious yes. Of course economists disagree, though he points out that when they gather with lawyers and politicians "the economists are likely to agree with each other and to disagree with the consensus of the noneconomists." Most American economists agree on free trade, against the consensus; and quite a few, including Stein, agree that the Japanese Invasion is exaggerated and harmless, a trade of Toyotas for pieces of paper costing pennies to engrave. Admittedly the forecast by economists of next year's GNP is poor, but Stein points out that no one would have expected such an impossible feat of forecasting if the economists hadn't thought up the idea of GNP in the first place. And "if someone is going to talk about economics on TV it is probably better done by economists than by politicians, columnists, sociologists, or clergymen -- who seem the most likely alternatives."

Above all Stein thinks that economists have given useful advice to politicians: Mr. President, try voluntary exchange, which has made us rich; keep calm about the federal deficit, which has been big in other times. The politicians do not trust anyone who is not on their team, reasonably enough, so the immediate influence comes from advisers inside. Stein has sat inside and outside, and can speak with authority. The outsiders, he argues, have their influence only in the long run, through conversation, by making conceivable the policies once thought inconceivable: the dirty float of the exchange rate, for example, or the moderate flattening of tax brackets.

The New York Times said in 1969 that the distinguishing feature of the Council of Economic Advisers when it first contained Stein was humility. The joke is on The Times, because since then the humble attitude towards the giving of economic advice has looked better and better, and even The Times has moderated its enthusiasm for fine tuning. Stein was a pioneer in honest ignorance, a Socrates among the social engineers, arguing early and late that "1. Economists do not know very much. 2. Other people . . . know even less. . . . These beliefs do not provide a platform from which to make strong pronouncements about economics or public policy." Most

people who pose as ignorant don't really believe they are. Stein believes that he and other economists really are.

YET STEIN would gladly learn and gladly teach. He can teach salient facts, such as that Japan's recent growth rate will leave it still with a lower income than ours a century from now; or that the deindustrialization of America has reduced jobs in manufacturing but not the share of manufacturing in output. And he can teach the bits of refined common sense that are economic theories, such as that foreign holding of American debt is no more destabilizing than American holding of the debt; or that jobs are lost for many reasons, few of them foreign, and that what matters are the net jobs found.

We economists, then, are useful people but not seers, and "should be deciding what we will do if the initial assumption, whatever it is, turns out to be incorrect." You would expect no less of someone working on your teeth. Keynes said 50 years ago that it would be splendid if economists could manage to get themselves thought of as humble, competent people, on a level with dentists. When serving as economic adviser to the president, therefore, Stein was disappointed but not offended when he had to give up the last seat on Air Force One to Moscow for the president's dentist. :: Donald N. McCloskey, professor of economics at the University of Iowa, is the author of "The Rhetoric of Economics" and "The Writing of Economics."

Caption: PHOTO

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