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Economists Are Warming to Government Intervention

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Economists argue so much about everything that people are always asking them “Is there anything you folks agree on?” The usual stock response is “free trade.” But when Stanford economics professor Jon Levin took the question on Quora, he gave a very different answer:

Virtually all economists agree with the principle that externalities should be taxed and tend to see externality taxes (or "Pigovian" taxes after the economist Arthur Pigou) as quite natural.

This might seem like a dry, scholarly response, but for those of us who watch the econ profession, it is eye-opening. This is the first time I've seen a professor at a top school cite government intervention in the economy as the main example of agreement in the field.

Many people associate economists with support for free markets. There is some truth to the stereotype. On the issue of international trade, economists definitely tend to favor less government intervention than the average person, at least in the U.S. But on many issues, economists are actually more likely than the general public to summon the guiding hand of the state.

In a 2013 paper, economists Paola Sapienza and Luigi Zingales compared a survey of the general public to a poll of top academic economists. Both surveys are administered by the University of Chicago's Booth School of Business. While they found substantial disagreement between economists and the general public, it was definitely not the case that normal folks were more interventionist than the experts.

For example, the economists were more likely than the public to support the U.S. auto bailouts, by 58.6 percent to 52 percent. They were also more likely to support President Barack Obama's economic stimulus bill, by 52.8 percent to 43.4 percent. More economists -- over 97 percent -- were in favor of tax hikes, and fewer supported school-voucher programs.

The Chicago survey of economic experts -- which you can browse online -- isn't a representative sample of the econ profession. It relies on the judgment of the survey makers to pick who is a top expert and who is not. But broader measures of economists' opinions also find widespread support for government intervention.

For example, a 2006 paper by Charlotta Stern and Daniel Klein examined a survey of members of the American Economic Association, which encompasses almost all academic economists in the nation. Stern and Klein found that most economists support regulations to protect air and water quality, workplace safety regulations, activist monetary policy to stabilize the economy, government regulation of pharmaceuticals, public schools, income redistribution through the tax system, gun control, minimum wage laws, as well as other government interventions. On only a few topics -- immigration, trade tariffs and state ownership of industry -- did most economists take the libertarian position.

Thus, Levin's Quora response, while refreshingly new, actually does a good job of representing the profession's interventionist attitude. Free trade, in fact, is the outlier -- one of the few issues where economists are much more libertarian than the public.

So why do many people think of economics as a bastion of libertarianism? Part of it might be due to undergraduate education. Most introductory college econ courses teach a very simple theory of supply and demand in which free markets make the whole world more efficient. Econ 101 courses tend to gloss over more difficult topics, such as externalities, asymmetric information and welfare economics, which often justify government intervention. The free-market stuff is simple and easy, while the market failures, though often important in the real world, are harder to understand. This can give college kids a simplistic, fun, but fundamentally wrong way of thinking about the economy, which I call “101ism.”

Another reason might be marketing. Many of the people who explain economics to the general public, such as the bloggers at Marginal Revolution or the creators of the EconTalk podcast, have libertarian leanings. A number of conservative think tanks, such as the Cato Institute, Heritage Foundation and American Enterprise Institute, employ university-trained economists to promote free-market policies to the public. In recent years, this libertarian influence has been balanced out by more left-leaning voices -- the New York Times' Paul Krugman, the University of California-Berkeley's Brad DeLong, and think tanks like the Washington Center for Equitable Growth, Center for Economic and Policy Research and Economic Policy Institute. But libertarians' head start in marketing -- which goes back all the way to Milton Friedman and Friedrich Hayek in the mid-20th century -- will take a while to overcome.

Eventually, though, the public will realize that economists are not the knee-jerk free-marketeers that many imagine. Even on international trade, the elite consensus shows a few signs of fraying at the edges. Soon we may enter an age when economists call on the government to fix the economy, and the average American is the one who needs convincing.