

2004 Recipient of the NAREA Award for Outstanding Public Service Through Economics

# The Obligations of a Policy Economist

Paul R. Portney

It is impossible for me to begin this short talk with anything other than a heartfelt thank-you to the members of this association for making me the recipient of this year's Award for Outstanding Public Service Through Economics. I'm not the kind of person who gets awards and, as with many of the honors given to government figures in Washington, DC, from which I hail, it's undeserved! You should note, however, that I came to Halifax yesterday afternoon to be sure I was here to receive the award today, so I hope you know how pleased and honored I am to be here.

My interest in economics dates back to the summer of 1953, an easy date to remember this year because it was exactly three cycles ago of the 17-year cicada infestation we have been enduring in my part of the world. After the cicadas had almost all died, I collected hundreds of them in a large glass jar and went door-to-door in my neighborhood in Park Forest, Illinois, trying to sell them. My mother, who had never gone to college, much less taken an economics course, took me aside after a day on which I'd come home disconsolate, having sold not a single cicada carcass. She said, "Paul, if anyone is silly enough to want dead cicadas, there are millions of them lying around. They're not going to fetch a very good price, and you might want to consider something different to earn money for your baseball cards." Thus was the iron law of supply and demand first driven home to me!

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Paul R. Portney is President of Resources for the Future, Washington, DC. He is the 2004 recipient of the NAREA Award for Outstanding Public Service Through Economics. This paper was presented by the author at the June 21, 2004, Awards Luncheon of the Northeastern Agricultural and Resource Economics Association (NAREA) annual meetings, held in Halifax, Nova Scotia.

My interest in putting economics to the service of public policy came much later in life, and it is attributable to two things. The first is the well-known economic doctrine of comparative advantage: while I was a perfectly competent researcher, I never felt I was as good a theoretician or applied econometrician as my wonderfully bright colleagues at Resources for the Future (RFF). I was *relatively* better, though, at thinking about how the tools and techniques they were developing could be used to improve the country's policy "toolkit," and interested as well in how this could be explained to non-economists in such a way as to whet their appetite for what I considered to be more enlightened public policy. A second impetus to policy involvement, of course, was the advantage of working six blocks from the White House and three short miles from both the Capitol and the EPA. Believe me when I say that I have seen far too many examples of misguided policy in my nearly 33 years in Washington not to want to at least try to improve things a little.

I have chosen as the subject of this short talk today, "The Obligations of a Policy Economist." It is my hope to exhort rather than to preach, and I'll be pleased if my remarks give you pause to think about the way you lead your professional life, even if they do not spur you to make any changes.

The first obligation I want to identify is straightforward enough: be very clear about what economics can and cannot tell us, and clear as well about the premises upon which it is based. For example, I occasionally hear economists talk as if—or even say directly that—a benefit-cost analysis is a sufficient basis for making an environmental policy decision. In my view, and I hope in the view of all

of you here, this is poppycock. To be sure, a good benefit-cost analysis can be and, I would argue, *should* be a part of the information base upon which any important environmental or natural resource decision is made. But anyone who believes that allocative efficiency is or even ought to be the *only* basis for policy making will find little support from most good economists. Naturally, we might all prefer a world in which pure distributional politics plays a smaller role in environmental and natural resource policy than it does today. But it's hard to deny the importance of taking into account the identity of those who win and those who lose from even an efficient policy change.

Other considerations matter, as well. For instance, society would no doubt always prohibit the selling of one's vote, even if a benefit-cost analysis suggested there were enough eager buyers and sellers that such a measure might pass the test. Finally, laws are sometimes written in such a way as to preclude the consideration of costs in environmental standard-setting, as is the case under Section 109 of the Clean Air Act in the United States. In these cases, not only is benefit-cost analysis an insufficient basis for decision making, it would be illegal to use it even as one input in that process.

We also have an obligation to be open and honest about the assumptions on which such tools as benefit-cost analysis are based. For instance, we economists generally accept without much thought that the social value of a proposed policy change at any one time is the sum of the values attached to that change by the individuals who comprise the society. But this means, of course, that in a society of philistines in which no individual cares a whit about the Grand Canyon, there is no value to preserving it in the face of a proposal to convert it to a parking lot for Las Vegas. Non-economists find this notion quite troubling, and we need to acknowledge and confront this. Similarly, the benefit from protecting a super-rich rock star from an air pollution-related health risk will, technically speaking, be greater than that of protecting a poor day-laborer because willingness to pay is contingent upon one's income. If I'm not the only one here uncomfortable with that notion, I'll be quite surprised. Policy economists often gloss over the value-laden assumptions upon which applied welfare analysis is based, even when we shouldn't.

A second obligation of policy economists is to fully portray both the pros and the cons (the benefits and costs, that is) of the policy options under consideration. This is easy to do if one is

undertaking an analysis on one's own, as in an academic paper. In such cases as these, there is no reason to give short shrift to one or another policy consequence. Indeed, we often undertake studies like this to answer for ourselves the question, "Hmmm, I wonder if this is a good idea or not."

More often than not, though, one undertakes economic analysis for a client or sponsor. This might be a government agency, a philanthropic foundation, a corporation, or perhaps a public interest advocacy organization. In these cases, our client has a "horse in the race," to use an old expression, and is probably hoping our analysis will come out in a particular way. It's the job of the policy economist to speak truth to power, as the late Aaron Wildavsky put it, and make clear not just the beneficial effects of the favored policy option, but also its costs.

This has become particularly important in what I'll call the "win-win era," a time in which favored policy options are generally described as benefiting everyone—rich and poor, black and white, tall and short, etc. But I've never seen a win-win policy in which at least someone doesn't lose his shirt. To be sure, sometimes the losers are not particularly sympathetic parties. Doing away with agricultural subsidies is often described as being a win-win policy—good, that is, for both the environment and for those farmers in underdeveloped countries who can't make a living in agriculture because of the competition from subsidized agriculture in the United States and Europe. But doing away with such subsidies is surely a loss for the farmers *receiving* them—generally the wealthy owners of large, corporate-like farms, since they get the largest subsidies. I may not lie awake at night worrying about their fate, but they would surely be losers from that particular win-win policy nonetheless.

Consider another example. During the nearly two years I spent as Chief Economist at the Council on Environmental Quality in the Executive Office of the President, I was once asked to write something glowing about what would today be called a "win-win-win" policy (a 50% improvement on the simple win-win!). The idea was to have the government subsidize through income tax credits the cost of corporate investments in pollution control. This was an idea that had enthusiastic support from the manufacturing sector (for obvious reasons), from organized labor (which believed that there would be fewer jobs lost in manufacturing due to regulation-induced plant closures), and from environmentalists

(who wouldn't have to fight so hard with business over the high cost of pollution control). From the standpoint of the champion of this idea, truly a win-win-win. The trouble with such tax credits, of course, was that they would have promoted more investment in polluting industries than was optimal, and left taxpayers paying for a share of pollution control rather than either those buying the products of the polluting firms or the shareholders of those firms. I said that I would have to include a discussion of these latter effects in any serious analysis of the subsidy idea, for which I was scolded for not being a team player.

A third obligation of a policy economist, I believe, requires us to do something that doesn't come naturally to many of us. It is to think beyond "this is the optimal policy" to "here's how it might be designed to work in the real world," and even occasionally to "here's what could be done to lessen the burdens on (and blunt the political opposition from) those who would lose from the proposed policy change." In fact, I think the single greatest failing of most policy economists—myself included, certainly—is an unwillingness to roll up our sleeves and work with the lawyers and others who are charged with the actual drafting of environmental and natural resource policies. In other words, it is often unnatural for us to immerse ourselves in the institutional details of lawmaking and regulation-writing. And sometimes the professional payoffs from doing so, especially for economists in academia, are small or even nonexistent.

Believe me, it's a very long journey indeed from the insight that the issuance of marketable permits for CO<sub>2</sub> emissions (or the imposition of a carbon tax) is the best way to control that pollutant to the actual legislative and regulatory language that spells out how a carbon mitigation program will work. Unless policy economists are willing to stay involved in this process throughout, it is likely that language will be written which, either wittingly or unwittingly, creates a radical departure from the intellectually appealing policy that one of us has concocted. During the debate in 1989–90 about the form that a sulfur dioxide emissions trading program would take in the revised Clean Air Act, it was the advocacy group Environmental Defense, more than

Resources for the Future or any other group of academic economists, that played a key role in the legislative design which proved to be so successful. We are fortunate it is one of the few such advocacy groups that has always employed well-trained economists to help advance its work.

Policy economists should be involved as well in figuring out ways to compensate the losers from an efficient policy: this is often seen as much less interesting than designing the policy—beneath us, even. Yet how many times have we seen a policy with significantly positive net benefits *not* enacted because the prospective losers are identifiable and well organized, while the winners are dispersed and unorganized? Isn't this exactly why it is so difficult to do away with the agricultural subsidies I mentioned above, as well as those in forestry, grazing, and water policy, to name but a few?

There are some examples from which we might learn. When the Redwood National Park was created in the United States some years back, the loggers whose jobs would disappear as a result of curtailed logging were compensated for their loss with a gradually decreasing series of payments over a five-year period. Similarly, when the Clean Air Act Amendments of 1990 were written, a \$500 million fund was created to compensate high-sulfur coal miners whose jobs were affected by the shift from high- to low-sulfur coal in utility boilers throughout the midwestern and eastern United States. Far from being a mundane task, policy economists ought to relish the challenge of designing compensatory schemes that make it possible for their ideas to be implemented in the real world, rather than exist as mere *curiosa* in classrooms, journal articles, and textbooks.

I have identified here three obligations of policy economists. I suppose I could have identified more, as might each of you, though I think the ones I have touched upon would be near the top of anyone's list. As your lunchtime speaker this afternoon, and especially as your honoree this year, I have a fourth obligation—one I am delighted to discharge. That is to thank you once again for asking me to be with you here today and to say how grateful I am to you for having done so.