For the Record

Confessional Economics

It was with both delight and sadness that I read Ahmad Faruqui's "Confessions of an Energy Economist" (Winter 2022–2023). The delight was in, as they say, "feeling seen." Much of my own career, primarily in financial regulation and real estate economics, mirrored many of Faruqui's experiences. The sadness was also in the fact that many of my experiences mirrored his.

In addition to having served in a high-level economics position at the White House (as chief economist to Vice President Mike Pence), I also served as chief economist for the U.S. Senate Committee on Banking, Housing, and Urban Affairs under Sen. Richard Shelby. My time on the Banking Committee staff coincided with the years leading up to the 2008 financial crisis.

Despite the occasional claim that Chicago school economics caused the financial crisis, my seven years on the committee witnessed an almost complete lack of any real input by economists. I regularly raised issues of moral hazard in both the mortgage market and financial regulation in general, and I uniformly saw such concerns dismissed. What drove policymaking on the Senate Banking Committee was essentially two forces. The first was inter-industry competition: how banks can gain at the expense of insurance companies, for instance. The second was the desire to use the financial system to redistribute income or wealth via hidden or cross-subsidies. There were rarely any discussions of externalities specifically or market failures in general.

As Harvard economist Jason Furman noted in a *Foreign Affairs* essay ("The Quants in the Room," July/August 2022), which Faruqui used to open his article, much of the American political left's critique of the influence of economists in policymaking is ill-informed. In my experience, economists, as internal policy advisers, have almost always pushed back against rent-seeking attempts by industry. In fact, the economists in the room were often the only ones pushing back against rent-seeking. I would suggest, despite their general lack of influence, that if economists were not involved in the policymaking process, we would have a lot more industry rent-seeking, not less.

I was fortunate to work for some senators who did take an interest in economics, among them Shelby and previous Banking Committee chair Phil Gramm, a Ph.D. economist. I also regularly worked to place academic economists as witnesses at hearings before the Banking Committee. However, though these witnesses occasionally caught the attention of a senator or two, my effort was largely fruitless. What success I did have resulted from the magic words, "I don't think the Senator will support that," referring to Gramm or Shelby. It was in representing them in negotiations that I was able to have the biggest effect on policymaking. Yes, I would try to make economic arguments to the other negotiators, but that rarely worked. My success came in convincing Gramm or Shelby the issue was worth fighting for, and then doing the fighting.

It's a similar story for my time in the White House. While I do believe Pence valued and incorporated my economic advice, it was in representing him within the White House policymaking process that I had the biggest effect. It was, frankly, his backing and support that generally won the day, not the economic arguments. That said, this does represent the clearest avenue for an economist to successfully affect policy, which Faruqui touches upon: find a powerful champion.

I have also had, perhaps unusual for an economist, the opportunity to head a federal agency, the Federal Housing Finance Agency (FHFA), as well as lead a program office in the U.S. Department of Housing and Urban Development (HUD). It was in those roles that my economics training became most useful. At FHFA, I was the principal, so I did not really need to convince anyone else at the agency. I could implement decisions based on my understanding of economics, subject to the political and organizational constraints any agency head would have faced. At HUD I had direct access to the secretary and my work, while regulatory, was essentially on real estate market structure. My graduate school training in industrial organization was particularly useful in that context.

Faruqui observes that "regulatory policies are designed, dissected, and evaluated mostly by non-economists." Such has also been my experience. In most cases, the non-economists are lawyers. Here, economists aren't completely blameless. I have repeatedly seen economists offer advice to regulators that would be outside the scope of existing law. As a former regulator, I can attest that that is not very helpful. I have even seen Nobel winners make basic errors about important legal and policy details. Faruqui demonstrates in his piece a strong understanding of the relevant policy. As a general rule, however, economists limit their ability to influence policy if they are unwilling to read statutes and regulations, in addition to learning relevant institutional details of the markets in question.

My experience as both an economist advising elected officials and as a direct policymaker has led me to strongly conclude that if economists want to have a major effect on policymaking, they need to get into policymaking positions. Get elected. Get appointed. Gramm has had far more effect on U.S. policy as a senator than as an economist. Alfred Kahn had far more effect as a regulator than as a scholar.

That said, successfully implementing policy isn't an academic exercise. One needs political, communication, legal, and organizational skills that aren't normally found among economists. So don't make the leap if you aren't willing to develop those skills. If you are, however, you can have a considerable effect on public policy, but only really in the role of policymaker, not as an economist.

Mark Calabria
Cato Institute