

The Case for Optimism



All too many of us who make a living as policy analysts have become pessimistic about the prospects for desirable policy change, cynical about the motives that sustain bad policies. And there are ample reasons for such attitudes. Many bad policies last for decades, and much current policy debate is about bad new policy proposals from both parties. And some Chicago economists have even developed a

Panglossian rationale for why this is the best of all possible worlds. If that were really the case, there would be little reason for Cato and the other policy institutes.

The case for optimism about policy analysis, however, also has a solid empirical base: many important policies have changed for the better, especially over the past 25 years.

Macroeconomic policy has probably experienced the most dramatic change. Instead of perceiving that we were destined to a regular business "cycle," we now recognize that economic growth is the normal condition and that recessions are usually the consequence of a policy mistake or the necessary corrections of such mistakes. Monetary policy is now recognized as having a far stronger effect on aggregate demand than does fiscal policy. We have learned that there is no necessary trade-off between unemployment and inflation; experience has proved that both can be reduced with no apparent limit over time. Macroeconomic policy also seems to have been freed from an obsession with the exchange rate or the balance of payments. As a consequence, with the support of both President Reagan and President Clinton, the Federal Reserve has maintained an unusually steady growth of aggregate demand for most of the past 18 years, with a continued reduction of both unemployment and inflation.

Most of the older forms of price and entry regulation have been reduced or abolished since the late 1970s. The substantial deregulation of agriculture, communications, energy, finance, transportation, and international trade has been generally

“Many important policies have changed for the better, especially over the past 25 years.”

successful and is now broadly supported by both parties. Older network industries like electricity and wired communications will prove to be more difficult to deregulate, but the general success of deregulation has made it possible to avoid any significant regulation of the Internet.

Early experience with several recent policy innovations is also encouraging. Welfare reform (plus a strong labor market) has substantially reduced the number of welfare beneficiaries, but it is too early to determine whether this reform will reduce public expenditures or survive a weak economy. Several recent Supreme Court decisions have restored some limits on the commerce clause rationale for expanded federal powers, but those 5-4 decisions risk being reversed by the appointment of even one more justice who supports an expansive interpretation of this clause.

Equally encouraging, the major new domestic policy issues in the current presidential campaign are Social Security and school choice. The endorsement of partial privatization of Social Security and experiments with school vouchers by Governor Bush and the prior (but since rescinded) endorsements by Senator Lieberman suggest the potential for a bipartisan consensus on these issues in the near future.

All of the above existing and potential major policy changes have one common characteristic: they had been studied and promoted by Cato long before they reached the political front burner. Good policy analysis has a high rate of return, even if the changes are long deferred. As I have often advised our bright young Cato interns, the virtues of an effective policy analyst are to

- be principled,
- be prepared, and
- be patient.

And the most difficult of these virtues to nurture may be patience.

—William A. Niskanen