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Alan S. Blinder

A QUESTION OF BALANCE

SINCE THE 1994 congressional elections, America's central political debate has pitted "big government" against "small government." This is a sterile dichotomy that captures the concerns of few citizens. Americans abhor paying taxes and are constitutionally incapable of favoring "big government" in the abstract. Nevertheless, I suspect that voters want more government, not less, in certain key areas—crime prevention, environmental preservation, job security, and education, to name just a few. Naturally, they want less government elsewhere.

The real source of the current estrangement between Americans and their politicians is, I believe, the feeling that the process of governing has become too political. Americans increasingly believe that their elected officials are playing games rather than solving problems. Political debate has too much "spin" and too little straight talk. The system is too argumentative and tied up in partisan and procedural knots. Most important, government appears excessively beholden to those with political clout, often at the expense of the public interest.

In return for these perceived vices, citizens exact retribution from professional politicians: witness the romanticized yearning for a man on a white horse (first Ross Perot, then Colin Powell), the meteoric rise and fall of the anti-politician Steve Forbes, and

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the growing pressure for term limits. Each of these rejectionist phenomena is a Bronx cheer for career politicians.

So what is the solution? Policy without politics? Of course not. But "politicalness" is not something that must be turned on or off like a light switch; it can come in shades, more like a rheostat. We could be having a different debate. It would not be about the scale of government, but about the scope of politics; not about whether government is too "big" or too "small" in some abstract sense, but about what things the government should and should not be doing. And it would be about how political the government's various decisions should be.

Although important, this last question is rarely mentioned. My contention is that one root cause of Americans' current distaste for government is that our system is too political. Short-term electoral considerations and political gamesmanship have fueled much voter resentment. Fortunately, we can do something about it.

It is, of course, neither possible nor desirable to depoliticize government. Policymaking in a democracy must be political—that is, legitimized by popular support rather than by technical analyses. And American democracy, in particular, was designed to be messy and frustrating. But different arrangements for governance draw the line between political and technocratic decisions in different places, and every society must choose where that line should fall. I believe that Americans have decided, almost subconsciously, that we have drawn the line in the wrong place, leaving too many policy decisions in the realm of politics and too few in the realm of technocracy.

LEARNING FROM THE FED

THIS ADMITTEDLY deviant thought occurred to me while reflecting on my recent experiences in two very different government positions. From January 1993 until June 1994, I worked close to the political epicenter of the United States—on the president's staff as a member of the Council of Economic Advisers. From June 1994 through January 1996, I served as vice chairman of the Board of Governors of the Federal Reserve System, an independent agency created—not coincidentally—during the Progressive Era, when reformers believed in making government more "objective" and less "political." The contrast was stark.

Regardless of who is president, life at the White House is fast-paced, exhilarating, and—of necessity—highly political. Policy discussions may begin with the merits ("Which option is best for the American public?"), but the debate quickly turns to such cosmic questions as whether the chair of the relevant congressional subcommittee would support the policy, which interest groups would be for and against it, what the "message" would be, and how that message would play in Peoria.

These matters are not just apposite in our form of government, they are inescapable. Nevertheless, a policy's merits can quickly get buried under a mountain of political detritus even before the policy emerges from the White House pressure cooker. Then it goes to Congress, where things only get worse. The principles that count on Capitol Hill for Republicans and Democrats alike are the political ones.

At the Federal Reserve, on the other hand, the pace is deliberate, sometimes plodding. Policy discussions are serious, even somber, and disagreements are almost always over a policy's economic, social, or legal merits, not its political marketability. Overtly partisan talk is deemed not just inappropriate, but ill-mannered. The attitudes of particular legislators, interest groups, or political parties toward monetary policy are rarely mentioned, for they are considered irrelevant. And the Fed rarely discusses its "message." The Fed does not always make the right call, but its criteria are clearly apolitical. And its decisions are arguably better, on average, than those made in the political cauldron.

What accounts for the different styles of decision-making? It is not that the Federal Reserve has smarter or more morally upright people in authority. Rather, they labor under starkly different conditions. The White House and Congress are supposed to be political venues. Where else should a great democracy hash out its political differences? But the Fed is an independent agency. Independent of what? Well, mostly of politics. Federal Reserve governors are presidential appointees subject to Senate confirmation, but once they arrive at Fed headquarters they are neither obliged nor expected to do the bidding of the president or Congress. The Federal Reserve was designed to stand above the fray, insulated from politics, making monetary policy on the merits. And it does, to a remarkable degree.

But what justifies assigning so much power to a small group of unelected officials, nowadays mostly economists? Isn't that undemocratic? The usual defense of central bank independence is more pragmatic than philosophical: It works, and for three main reasons. First, and least important, monetary policy is a somewhat technical field where trained specialists can probably outperform amateurs from the political realm. Second, the effects of monetary policy take a long time to filter through the economy, so good policy decisions require patience and a long time horizon—two attributes not normally associated with politicians. Third, the pain of fighting inflation (higher unemployment for a while) comes well in advance of the benefits (permanently lower inflation). So short-sighted politicians with their eyes on elections would be tempted to inflate too much. For these reasons, more independent central banks in many countries have been able to deliver lower inflation and steadier growth and employment.

The argument for the Fed's independence applies to other areas of government policy.

As Fed vice chairman and since, I have often offered variants of this defense of central bank independence. I believe it. But as I made the case, a nasty little thought kept creeping through my head: the argument for the Fed's independence applies just as forcefully to many other areas of government policy. Many policy decisions require complex technical judgments and have consequences that stretch into the distant future. Think of decisions on health policy (should we spend more on cancer or AIDS research?), tax policy (should we reduce taxes on capital gains?), or environmental policy (how should we cope with damage to the ozone layer?). Yet in such cases, elected politicians make the key decisions. Why should monetary policy be different?

At first my inability to offer an intellectually coherent answer to this question led me to question the justification for central bank independence. If monetary policy decisions really are so similar to, say, tax policy decisions, why should Congress delegate monetary policy to an independent agency while reserving tax policy for itself? A disquieting thought for a central banker!

But as I thought about the matter more deeply, the question started to turn itself around. The justification for central bank independence is valid. Perhaps the model should be extended to other arenas. After all, good tax policy requires complex technical judgments and a long time horizon, just like good monetary policy. The tax system would surely be simpler, fairer, and more efficient if the details (though not the broad policy goals) had been left to an independent technical body like the Federal Reserve rather than to congressional committees.

POLITICAL OR TECHNOCRATIC?

So HERE is the broad question of governance that, in my view, the nation should be debating: Would the country be better off if more public policy decisions were removed from the political thicket and placed in the hands of unelected technocrats—subject, of course, to congressional approval and oversight? Upon raising that question, three issues leap to mind. First, which policy matters are ripe for such reassignment and which are not? What principles should govern the choice? Second, how can a democratic society justify handing over important policy decisions to unelected officials? Third, is it realistic to think that government could be depoliticized in this manner?

Two factors that influence whether a particular policy decision belongs in the domain of technocracy or that of politics have been mentioned already: the relative importance of technical expertise versus value judgments and the importance of a long time horizon. Expertise is clearly, if tacitly, valued in public administration. For example, politicians decide on overall funding levels for public hospitals and schools and set broad guidelines for their operation. But experts, for the most part, make the detailed decisions and policy judgments. When politics intrudes on the educational system, the results are usually unfortunate (for example, mandating the teaching of scientific creationism in public schools). Scientific agencies like the National Aeronautic and Space Administration and the National Institutes of Health function in a similar way. Congress does not (usually) decide which approaches to cancer research are most promising or when the space shuttle should fly.

At the extremes, it is easy to tell a technical judgment from a value judgment. No one would want scientists deciding on public policy toward abortion or capital punishment, for example, even though each issue has some scientific aspects. The central questions are fundamentally moral and are therefore properly decided in the political arena. But as we move toward the middle of the spectrum, the line between technical and value judgments begins to blur. Consider two economic examples: monetary policy and tax policy.

To decide on the appropriate monetary policy, a member of the Federal Open Market Committee needs, among other things, forecasts of macroeconomic activity and inflation, estimates of the magnitude and timing of the economy's responses to changes in interest rates, and educated guesses about how financial markets would react to alternative policy actions. Each of these evaluations requires technical expertise. But the policy decision also demands a value judgment about the relative importance of the two goals assigned to the Fed by Congress: maximum employment and stable prices. Even if they make identical technical judgments, committee members who attach different moral weights to unemployment and inflation can reach disparate conclusions about monetary policy.

Myopia is a serious practical problem for democratic governments.

The same is true of tax policy. As an example, consider a question that has been debated in recent years: Should the United States lower the tax rate on capital gains? Answering such a question requires technical information, such as evidence on whether a lower capital gains tax would spur saving and investment. But a policymaker must also confront a stark value judgment: If cutting the capital gains tax would encourage more investment but would favor the wealthy, should it be done or not? That is a question for legislators, not technocrats.

The second factor relevant to choosing between technocracy and politics is the importance of a long-run focus. Myopia is a serious practical problem for democratic governments because politics tends to produce short time horizons—often extending only until the next election, if not just the next public opinion poll. Politicians asked to weigh short-run costs against long-run benefits may systematically shortchange the future. Despite this well-known problem, however, few government decisions have been removed from the political thicket. Monetary policy is one of them.

WHOSE GAIN, WHOSE PAIN?

TO THESE first two factors we must add a third. Some public policy decisions have—or are perceived to have—mostly general impacts, affecting most citizens in similar ways. Monetary policy, for example, certainly has sectoral effects, but it is usually thought of as affecting the whole economy rather than particular groups or industries. Other public policies are more naturally thought of as particularist, conferring benefits and imposing costs on identifiable groups. The details of the tax code and trade agreements are clear examples. In thinking about such issues, economists typically focus on efficiency and resource allocation: How does the policy affect the bill of goods that society produces? But public debate in the political arena invariably concentrates on distributive implications instead: Who gets the gain and who gets the pain?

When the issues are particularist, the visible hand of interest-group politics is likely to be most pernicious—which would seem to support delegating authority to unelected experts. But these are precisely the issues that require the heaviest doses of value judgments to decide who *should* win and lose. Such judgments are inherently and appropriately political. It's a genuine dilemma.

Perhaps one solution is for the electorate to decide which types of policies—such as tax preferences or trade provisions—should be used as redistributive tools and which should not. Then the former could be left to elected politicians and the latter delegated to independent, nonpolitical bodies. But this approach seems altogether too rational; muddling through on a case-by-case basis is more likely.

The comparison between monetary policy and tax policy illustrates the interplay of these three factors—technical versus value judgments, time horizon, and general versus particular effects. Monetary policy has long been depoliticized in the United States, largely because fighting inflation requires a long time horizon. But economists will tell you that tax policy requires peering at least as far into the future. The ultimate impact of any significant change in the tax code can take years to reach fruition. And many tax changes impose large transitional costs as households and businesses rearrange their financial affairs to adapt to the new tax environment. Thus, even if a new law ultimately proves beneficial, society may be worse off for several years. Despite this awkward problem, all important tax policy decisions are left in the hands of elected politicians, shortsighted though they may be.

There are other striking parallels between monetary policy and tax policy. In both, the costs precede the benefits, and both involve difficult technical issues about which members of Congress may lack expertise. Moreover, both types of policy decisions rest on value judgments that ought to be made by the elected representatives of the people. The one important difference is that the details of tax policy are more particularist than monetary policy. But it is unclear whether that points toward technocratic or political decision-making.

Overall, then, the similarities seem far greater than the differences. Yet our governing mechanisms for tax policy and monetary policy could hardly be more different. We assign one to the nonpolitical Fed, and leave the other to the intensely political Congress. Have we got the division of labor right?

LEAVE IT TO THE PROFESSIONALS?

ON TO the second question: How can a believer in democracy justify turning over policy decisions to nonelected professionals? The answer, I believe, is warily. But doing so makes sense if it leads to better public policy. To illustrate, let me return to the example of the Federal Reserve which, while hardly a perfect institution, is probably the clearest existing example of a nonpolitical policymaking body.

How does America reconcile an independent central bank with democratic values? First, the Fed's independence derives from authority delegated by Congress. In the Progressive Era, politicians made a once-and-for-all decision to limit congressional power in this way. They did so for the same reason that Ulysses tied himself to the mast: he knew he would get better long-run results even though he might rue his decision in the short run. The decision was democratic because Congress voted for it democratically. And Congress can undo it any time it sees fit.

Second, the Fed's basic goals are chosen by elected politicians, not by nonelected officials. The Federal Reserve Act directs—and I choose that verb advisedly—the central bank to pursue both "maximum employment" and "stable prices." The Fed is not free to jettison either goal, or to substitute an alternative goal more to its liking.

The third ingredient in the democratic stew is that the people at the top of the Fed are politically appointed. This is as it should be; it is what gives Federal Reserve governors political legitimacy.

Fourth, the public has a right to demand honesty, a certain amount of openness, and a high degree of accountability from its central bankers in return for their broad grant of power. Because monetary policy actions profoundly affect the lives of ordinary people, a central bank in a democracy owes those people an explanation of what it is doing, why, and what it expects to accomplish. While on the Federal Reserve Board, I often criticized the Fed's penchant for obfuscation and mystery on these grounds—and I still do.

Finally, in a democracy, the central bank's decisions should be reversible by the political authorities, but only under extreme circumstances. A Federal Reserve decision on monetary policy can in principle be overturned by an act of Congress. And Fed governors can be removed from office for good cause. These mechanisms have never been used, but America is wise to have them in place. Delegated authority must be retrievable.

With suitable modifications, similar democratic principles could be applied to other independent policymaking agencies. If such a body were established to run tax or environmental policy, it should exercise delegated authority that Congress could retrieve if it saw fit, and its basic goals should be set by Congress. The agency should be required to be considerably more open and accountable than the Fed, and its top officials should be politically appointed and removable for cause.

TAXATION WITHOUT OBFUSCATION

AN ILLUSTRATION of how these principles might be applied may help clarify matters. Without necessarily advocating such a change, let us consider how Congress might make some aspects of tax policy less political.

An independent federal tax authority might consist of presidential appointees serving fixed terms and removable only for cause, much like the Federal Reserve Board. These political appointees would have a highly skilled technical staff of nonpolitical civil servants, most of whom could be drawn from what are now the Treasury's Office of Tax Analysis and the staff of the Congressional Joint Committee on Taxation. Unlike the Federal Reserve, the authority would be required to explain in detail the reasoning behind its decisions, and to open its supporting materials to public scrutiny.

Congress could make tax policy less political by creating an independent tax authority.

The legislation establishing the authority should set its basic goals. Should the United States tax income, consumption, or something else? Should the authority strive for tax neutrality or should it seek to encourage particular activities such as saving, homeownership, or charitable contributions? What distributional goals should it seek? Congress now provides tacit answers to these questions through its actions. But these answers often form an unprincipled and inconsistent hodgepodge. One salutary effect of the proposed reform would be to make these clearly political decisions more explicit. Forcing politicians to take explicit stands on these general issues might even increase, rather than diminish, democratic accountability.

Having set the basic goals and parameters, Congress could do one of two things. It could explicitly delegate certain limited policymaking powers to the authority while reserving the most basic decisions for itself. Or it could direct the authority to design all the details and then subject the whole package to a single up-or-down vote.

Such a division of policymaking labor would improve policy design by assigning specific decisions to the persons best equipped to make them. Elected officials would select the ends of tax policy because ultimate goals hinge sensitively on moral, political, and value judgments that should be made democratically by elected politicians. But appointed professionals would design the means to achieve those ends, presumably choosing them on nonpartisan, technocratic grounds. Such a change in institutional arrangements would almost certainly produce a tax code far more efficient and just than the present one.

PUTTING PRAGMATISM INTO PRACTICE

IS THE idea of less political decision-making practical? Can it be done in the United States today? I believe the answer is yes. The Federal Reserve is not flawless, but it is an outstanding example of technocratic policymaking—and its star is shining as never before. Moreover, experience with other government agencies and institutional arrangements point in the same direction.

While no other agency has the full policymaking authority that the Fed has over monetary policy, the U.S. government is replete with independent agencies that were designed to insulate decision-making from political influence. The Securities and Exchange Commission and the Food and Drug Administration are two prominent examples. They are not perfect, but they work.

Congress has had similar success with the Base-Closing Commission. Some years ago, finding itself tied up in political knots over which military bases to close, Congress delegated much of its authority in the matter to a nonpartisan commission working with experts from the Pentagon. The idea was to insulate the process from political pressures, leaving Congress with a single up-or-down vote on the entire list. The experiment is now viewed as a noteworthy success and illustrates a crucial point about feasibility: in some areas Congress may be willing, and sometimes eager, to relinquish power, especially when the issue involves the apportionment of pain.

Lastly, consider "fast track" authority for trade agreements. When the U.S. government negotiates a trade agreement, many issues are on the table. Because it is certain that any agreement will create both winners and losers, the relevant interest groups are mobilized for battle. If Congress were to vote on each component of a trade pact individually, politics-as-usual would probably pick any proposed agreement apart—leaving our trade negotiators in an untenable position. So Congress typically grants the administration "fast track" negotiating authority for a limited period of time, and under certain stipulations. When negotiations are complete, Congress votes yes or no on the entire package with no amendments permitted. (At least that's the idea; the reality is somewhat less tidy.)

So the question before us is not one of feasibility. Policymaking can be made less political, and several contemporary examples illustrate the principle in action. It even seems to work tolerably well. The real issue is desirability. Do we want to take more policy decisions out of the realm of politics and put them in the realm of technocracy?

My strong suspicion is that if faced with such a question, our disgruntled electorate would answer with a resounding yes. But that is a proper subject for public debate. There are, after all, cogent arguments on the other side. For example, the scientific evidence on important public policy issues is rarely conclusive; more often than not, it leaves lots of room for interpretation and judgment calls. And even unelected technocrats have political and ideological views, which inevitably color the calls they make. We see this in the courts, at the Fed, at the Securities and Exchange Commission, and elsewhere.

FIXING WHAT'S BROKEN

ALL SOCIETIES tend to see their current governing institutions as immutable, as if they were the natural order of things. But they are not. What men and women have created, they can change—and change they should when these institutions grow dysfunctional. I have always opposed change for its own sake—if it ain't broke, don't fix it. But the public's evident disdain for the current system of governance is leading more and more Americans to tune out in disgust, wishing a plague on both political parties. Such attitudes weaken American democracy and suggest that the system is indeed broke and needs to be fixed.

Two popular nostrums are on offer as remedies for our political ills: either "less government" in some abstract sense, or "devolution" of government functions to lower levels. I do not believe that either holds the answer to what irks Americans. The time has come instead for a real national debate over a question that no one seems to be discussing: Might policies be better, and American democracy stronger, if more public policy decisions were made on less political grounds? It is not an impossible dream.