

**Essential Elements of Effective Economic Policymaking**  
**Address to the Society of Government Economists**  
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*Introduction*

Thanks so much to Susan, Amelie, and Austin for inviting me. I am really honored to be able to speak to this group.

Susan and I went back and forth on various catchy titles for this talk. At some point, the working title for the talk, also alliterative, was “Ten Take-Aways from my Time at Treasury” because I knew I wanted to reflect on things I learned during the 3½ years I just spent at the Treasury Department. But I changed the title because I realized that really the lessons go much further back in terms of my time in Washington.

Before I get to those lessons, I want to start by thanking all of you for all of your service. The work you do is so important.

To expand a little on that point, I went to a lot of goodbye parties for my counterparts during my time in the Administration—particularly in the last 3 or 4 months. One striking recurrent theme in departure speeches, particularly from those who had been working in policy shops, was just how grateful they were to have had such terrific staffs working with them.

Sometimes it was expressed with a little surprise; you have to bear in mind that some people had swooped temporarily from Wall Street or academia so were a bit naïve about the government workforce. Sometimes there would be a little indignation, with people saying how they get so mad now when they hear people using the expression “good enough for government work.” However, it was expressed, there was an underlying deep appreciation. And, I know I left Treasury feeling the same way.

People in jobs like mine come away so impressed partly because they have found their colleagues to be smart and well-trained and energetic and dedicated. But it is not just that. It is also because they have realized that government economists have truly special skills.

It is kind like we have superpowers. Knowing how to use data, knowing how to combine data with models, knowing how to apply findings from the economics literature to pressing policy questions: Those are not things that most regular human beings (meaning, non-economists) can do. It is not that the non-economists do not want to be using these tools, it is just that they often do not have access because this stuff can be hard. As a result, during my experience these tools were really one’s ticket into the important discussions about what policy steps we should be taking.

My favorite story about economist superpowers is not about a policy issue but rather a personal issue. In June 2014, after about 10 months of waiting to be confirmed by the Senate to be Assistant

Secretary for Economic Policy at Treasury, I started to get really frustrated and a little nervous that I might never be confirmed. It was not like no one was getting confirmed—it was just that the pipeline had gotten really narrow so it was really important where you were in the queue, which was, in turn, partly a function of grabbing people’s attention. But I am not naturally good at some of the things you might do to grab people’s attention—I am not good at raising my voice, pounding my fist on the table, or dominating a discussion with punchy debating points.

But what am I good at? Using data and producing analysis.

It turns out that you could (at the time) find a publicly available spreadsheet listing nomination dates, hearing dates, Senate vote dates, and confirmation dates for the hundreds of people who had been nominated within a year or so of my nomination. So I calculated how many days I had been waiting, how I compared to other people both broadly and to people with jobs like mine, and where I was in the distribution—and it turned out that I was in the way-out tail of the distribution in terms of waiting. I put together some tables and graphics. It was incredibly simple stuff by our standards. But, I thought what the heck, and I took it down to the person I knew best among the top leaders at Treasury, Sarah Bloom Raskin, who was our deputy secretary. I gave my tables and charts to Sarah and went back to my office.

About thirty minutes later my assistant said she had gotten a call saying the Chief of Staff wanted to see me in his office. It was always kind of scary getting these kind of calls because, being a somewhat paranoid person, I always thought I might be in trouble. So I went to his office and the Chief of Staff, who was a super smart lawyer by the way, has my analysis in front of him and looks at me and he says to me in kind of a low (almost suspicious) voice “*Where did you get this?*” He was definitely impressed. His tone was as if these graphs and tables were some sort of precious treasure I had stolen out of a cave.

Anyway, to fast forward a little, in subsequent days I got a number of calls about the treasure I had produced—first it was the Secretary who wanted to see my analysis, then it was the White House, and so on. And about 10 days later, I was confirmed. I will never know, of course, whether it was my data and analysis that got me confirmed. But, I would like to think it was. And, I will say that after I got confirmed, I continued to get calls from frustrated as-yet-to-be-confirmed counterparts who wanted to see my famous spreadsheet.

And that is my favorite example of economists’ superpowers.

### *Lessons*

With that introduction, let me talk about some of the key things I have learned about how to be effective as a government economist. I know these things are not all going to be new to all of you—particularly given that I learned some of these things from people like you. But, even if you know these things already, I hope you find it helpful to take a step back and reflect on them.

Lesson 1 is that it is the role of the policy economist to explain the economic trade-offs associated with prospective policy changes. In other words, it is our job to assess the expected

economic benefits and costs and try to come to a view about how they stack up against each other.

That is a unique role. There are lots of types of people involved in the policy process—from lawyers, to institutional experts, to political people, to “outreach” people, and so on. But, as I just discussed, the economists have tools that other people often do not have. In addition, thinking about the world in terms of economic trade-offs is not something that comes naturally to everyone. And, sometimes, it is just not their jobs to think about economic trade-offs. For example, the lawyers are generally focused on legal considerations, the outreach people are often focused on weighing the interests of different stakeholders (which is very different from weighing economic trade-offs). And so on.

So, we need to explain the economic trade-offs because other people generally will not. If you think about your jobs this way, it might take some of the weight off your shoulders because I am guessing that most of you are really in it for the policy—not the politics.

Lesson 2 is a corollary to Lesson 1—we should not shy away from expressing the downsides of a prospective policy change. Many people do not like delivering negative news, and, yes, this often leaves us being the proverbial “skunk at the garden party.” But that is our job.

Even if a proposal is really popular within your institution, you are not serving your institution well by glossing over the complications. It is fine to say that you think the upsides outweigh the downsides if that is true. But, the leadership of your institution should understand the full array of considerations before making a decision. That knowledge protects them. If you work at a place that has political leadership, your bosses may not want to go out and make a big public fuss about the downsides of a policy proposal. But they do not want them to be caught by surprise if an outsider starts talking about the complications.

Lesson 3 is that life in the economic policy world sometimes involves compromises. Do not get me wrong here—as much as any good economist, I wish I was working for the all-powerful social planner who sets all policies based on how the economic trade-offs stack up. But Washington DC does not work this way.

I always encouraged my staff to start with the basic economic trade-offs. But, sometimes it became overwhelming clear that because of political obstacles, we just were not going to get the policy that would be optimal by economists’ standards. That is the point where you want to ask—is there a second-best solution that dominates the status quo?

For example, one issue that I have been thinking about a lot recently is the housing finance system. The housing finance giants Fannie Mae and Freddie Mac were put into conservatorship in 2008, and they have basically remained under government control since then. All of the economists I know think the right solution is to have legislation that does comprehensive housing finance reform, and there is actually a fair amount of agreement about what features the new system should have.

However, it has proven extraordinarily difficult to extract ourselves from the current situation with Fannie and Freddie. We have had promising-but-ultimately-unsuccessful legislative efforts, and the political obstacles are really large.

So, while I do think that economists should continue to debate the best way to structure the housing system in the event we get a legislative overhaul, I also think we need to be giving more focus to a second-best solution in case the status quo prevails for some time. For example, if Fannie and Freddie remain under government control, how can we make sure that they do not start to struggle with the sorts of inefficiencies that the Federal Housing Administration struggles with? How can we make sure that their new programs to sell off some of their risk to the private sector would be robust in a housing downturn? And so on.

Lesson 4 is that it is important to take the time to communicate your findings in the right way. Given our important responsibilities, it is essential that government economists do the most rigorous possible analysis with the time available. But it is also essential that we package our work right.

One part of doing this involves knowing your audience. Secretary Lew was not an economist, so my office had to be diligent about how technical our text and visuals were. Over time, I came to know what types of graphs would work for him and what would not.

Furthermore, you have to take into account opportunity cost. For example, when you are dealing with people like Cabinet secretaries, you need to take into account that the meter is running at a sky-high rate. I guarantee you that you are not insulting these people by keeping things as short and simple as possible.

Relatedly, I always had my staff put a one-paragraph summary at the front of a memo and start that paragraph with a one-sentence summary of that summary just in case the Secretary did not have time to read his packet that day. Of course, I wanted him to read the whole thing, but I would much rather have him come away with something than with nothing.

And, this not to say that you should not have your more technical details written up. That is something to circulate to your colleagues, or, if the situation warrants, stick on as an appendix to your memo.

More generally, I want to say that I am a huge believer in taking the time to try to get your stuff written up well, whether that is memos or research. It is simply a misconception that good writers just put their pen to paper and a perfect first draft flows out. Nearly everyone drafts and redrafts multiple times. You really owe it to your good analysis to get it written up as clearly as possible.

Lesson 5 is that one needs to have patience when doing economic policy. It can take a lot of time before good ideas are realized.

Consider the President's budget. If you work for a Cabinet agency, you know that it is a document put out every spring discussing proposed funding for federal agencies and programs,

along with important policy proposals. The last Presidential budget I worked on was close to 200 pages long, with thousands of pages of supplementary material. You pretty much work on it all year, with quite intense work in the last few months. So, what happens to all these proposals? Well, to the extent that they require legislation, often nothing happens in the near term. Presidential budgets never get passed in full and sometimes (depending on the composition of Congress) have very little effect on what Congress does.

Does that mean that all the time spent working on proposals is not worth it? Hardly so. The budget is about what the Administration thinks is the right direction for the country to go in. And it is also about laying groundwork with Congress and the broader policy community. It is about raising awareness of challenges out there, socializing ideas to address those challenges, and providing concrete details of how Congress might proceed if it chooses to do so.

And I think there is real evidence of budget ideas taking hold, albeit sometimes slowly over time. For example, President Obama's first budget in 2009 included what's called the "auto IRA" proposal, which basically would require firms to automatically put their workers into a retirement savings account—either through a plan maintained by the firm or an individual retirement account—with the ability to opt out, of course. I think it is a really important proposal given the difficulty some Americans have saving and the evidence from the behavioral economics literature that defaulting people into plans is one of the best ways to encourage saving. Even though the proposal was not passed by Congress in 2009, the Administration continued to include it in the budget every year. It has still not been passed by Congress. But, we are starting to see individual states create plans that have elements of the auto-IRA proposal. Admittedly, the Obama Administration does not get full credit because the idea was around before 2009, and other experts have advocated it. But, I do think it made a difference that we included it in our budget and we kept including it in our budget as time went on.

Lesson 6 is that we should be mindful of the risks of "group think." Many of us are in government partly because we love teamwork. We love working together to come to an answer to important questions. Mostly that is an incredibly wonderful thing. But, there is a downside, which is that in our eagerness to embrace the team's view, we sometimes forget to keep questioning the team's view.

Here is one story in this regard. I was at the Fed in the period leading up to the financial crisis, and I will admit to being one of the people who was overly complacent about rising house prices in the mid-2000s. I think the Fed did catch on to the brewing problems before many other people did, but of course it would have been much better if we had caught on earlier.

A couple of years later I found myself working at Brookings, and I remember just what a culture shock it was that the tradition was to jump into the fray and challenge whatever people say. I would sit down at the lunch table and say "this taco is delicious" and I would be met with "How do you know it is delicious? Maybe your sense of taste is off. Maybe you are just in a good mood today." And, I will always wonder if I might have been less complacent about house prices if I had subjected some of the things we said to ourselves at the Fed to my colleagues at Brookings. For example, what would they have made of statements like: "well, we have never seen a decline in house prices at the national level before."

So, teamwork is great, but remember to occasionally ask yourself what the Brookings lunch table would say.

### *Requests*

Those are my lessons. I want to end with a few requests for you.

Request 1 is please do not give in to the view that facts and analysis no longer matter. They do matter and, notwithstanding some of the public talk, I think that probably most of you in your jobs are not experiencing a drop-off in the demand for what you do.

When I was planning this talk a few weeks ago, I was going to cite the example of CBO's excellent work on the first version of the American Health Care Act seeming to be pivotal to the fact that the bill did not have enough support to be brought to the House floor in March. That example does not seem quite as powerful as it used to in light of the events of the last couple weeks, but I still believe that analysis did make a difference in how tight the vote on the latest version of the bill was. And, I believe that the analysis of the current version of the bill, which has yet to be released, will make a difference as the Senate deliberates.

Request 2 is to please continue to work to protect our government data.

The government publicly releases a vast quantity of incredibly valuable data every month. These data are not perfect. For example, limited underlying survey sizes mean they can be noisy, seasonal adjustment can be difficult, it is often hard to account for quality improvements leading to the under-measurement of real output, and so on. We should certainly be comfortable talking about those limitations.

But, having this information to do research, make policy decisions, or do business planning is a zillion times better than having no data. And although private administrative records are useful and have an increasing fan base in the economist community, those data are no substitute. Besides being propriety and sometimes expensive to acquire, they are often based on unrepresentative samples that change over time.

So it worries me to see our former Commissioner of Labor Statistics, Erica Groshen, arguing that our statistical agencies have been underfunded for years. It worries me further that the President's so-called "Skinny Budget" released in March proposes huge budget cuts for some of our key data-producing agencies. And, it makes me despair when I hear Administration officials questioning the integrity of statistics like the unemployment rate—which has conformed to widely accepted international standards for decades.

I know I am preaching to the choir, but please continue to do everything you can to protect our government data.

Request 3 is to talk up public service. The *Harvard Crimson*, the newspaper of my new institution, published last May a tally of what types of fields the new graduates were pursuing.

And, I have to say that I was a little disappointed. Only 3 percent of those choosing to work right after getting their bachelors degree (as opposed to entering graduate school) were planning or hoping to go into government. This compares with nearly 40 percent going into finance or management consulting.

It disappoints me not only because I think government work is important but also because I think government jobs are really terrific. The work is challenging and interesting, and we get to grapple with fascinating questions. The colleagues are the best I have ever had. And, it is so rewarding to go home and think that you have done things that are really improving people's lives. I feel like more people would want to go into these jobs if they knew how terrific they were. So I am on a campaign to convey this message to all of the young people I know, and I hope you will join me in this.

### *Conclusion*

In conclusion, I invite your questions as well as your comments. If other people have lessons to share, I think everyone would love to hear them.

Thank you for taking the time to listen to me.