Have Economists Been Captured by Business Interests?

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To be an economist, you kind of have to believe that people respond to economic incentives. But when anyone suggests that an economist's views might be shaped by the economic incentives he or she faces, that economist tends to get bent out of shape. This happened perhaps most famously in the documentary *Inside Job*, in which filmmaker Charles Ferguson posed his questions to the likes of Glenn Hubbard and Rick Mishkin as tendentiously as possible in order to spark just such reaction. But it's actually pretty common to hear economists saying things like — this is from the usually no-nonsense John Cochrane of the University of Chicago — "the idea that any of us do what we do because we're paid off by fancy Wall Street salaries or cushy sabbaticals at Hoover is just ridiculous."

It is perhaps ridiculous to suggest that economists do what they do *only* because of the prospect of consulting gigs or think-tank stints. Economists are human beings, with diverse motivations. But it is definitely ridiculous to suggest that such rewards have no impact at all. Economists are human beings, and human beings respond to incentives. Right, economists?

Happily, Luigi Zingales, a colleague of Cochrane's at Chicago's Booth School of Business, is trying to correct his discipline's blind spot by examining the economics of economists' opinions. He does this in a chapter in the Tobin Project book *Preventing Regulatory Capture*, published last December, that has been trickling into the public's consciousness mainly in this working paper format (there's also a short version in the Booth School's *Capital Ideas* magazine, but the full paper is so entertaining that you really should download it, if you're into this kind of stuff). The economic lens Zingales uses is regulatory capture, the idea expounded by economists Mancur Olson and George Stigler in the 1960s and early 1970s that, as Zingales puts it, "regulators can be influenced and not all groups have equal opportunities in influencing them."

Zingales looks at the ways in which economists can be influenced and who might influence them, then subjects his notions to an empirical test: Are there discernible patterns in what kinds of economists think corporate executives are overpaid and what kinds think they're paid fairly? (He also examines views on whether executive pay should be more or less sensitive to corporate performance, but I don't want to overcomplicate things here.) The answer turns out to be yes. Economists with appointments at business schools are more likely to give a thumbs up to executive pay than those without — and this even after controlling for "the Bebchuk effect" caused by the extreme productivity of executive pay critic Lucian Bebchuk, who teaches law, economics, and finance at Harvard Law School. Economists on corporate boards are more approving of current pay practices than those who aren't. And articles in economics and management journals are more likely to be pro-pay than those in law or finance journals.

None of this is proof that the individual economists in question have been corrupted, Zingales writes. Maybe economists who sit on corporate boards simply understand executive pay better than those who don't. But the evidence does suggest that, among other things "the optimal strategy for a junior faculty who works on executive compensations [sic] and wants to maximize

her chances to get tenure is to write articles that show that the level of compensation is appropriate." Which sounds a lot like capture.

What is to be done about this? Zingales thinks media attention is an important force, and lauds *Inside Job* for "curbing the potential effects of capture." He also has some specific suggestions about the management of economics journals, the ways in which economists go about acquiring private data, and forcing economists to be more accountable for what they say in expert-witness testimony and elsewhere. Also, as an immigrant from Italy with a charming but distinct accent, he thinks there should be more economists like him:

> *Ceteris paribus* a foreign economist with a thick foreign accent is less likely to be asked to be an expert witness or to find a job in the industry, except in very quantitative (and generally not very lucrative) positions. These economists are less likely to cater to business interests.

What Zingales *doesn't* call for is any kind of blanket retreat by economists from consulting and expert witnessing and board memberships. Which is a good thing, I think. One of the reasons why economics rocketed past the other social sciences in influence and prestige over the past 75 years was because so many economists involved themselves in the worlds they studied. That has surely led to some amount of capture by outside interests, but it also seems to have counteracted the natural academic tendency toward insularity and obscurity. Lots of economists study things of direct relevance to business leaders and government policy-makers. We wouldn't really want to take away their incentive to do that, would we?