

## CONTENTS

<b>1</b>	Thinking like an Economist	1
<b>2</b>	The Economic Style and Its Antecedents	24
<b>3</b>	How to Make Government Decisions	42
<b>4</b>	How to Govern Markets	72
<b>5</b>	The Economic Style and Social Policy	98
<b>6</b>	The Economic Style and Market Governance	129
<b>7</b>	The Economic Style and Social Regulation	154
<b>8</b>	How the Economic Style Replaced the Democratic Left	180
<b>9</b>	The Economic Style in the Age of Reagan	201
<b>10</b>	Conclusion	217
	Acknowledgments	233
	Note on Sources	235
	Notes	241
	Bibliography	277
	Index	319

# 1

## Thinking like an Economist

In 2008, Barack Hussein Obama was elected to the presidency of the United States on a promise of “hope and change.” The first Black president, born fifteen years after Bill Clinton and George W. Bush, Obama’s election represented for many the turning of a page: the arrival of a new, multiracial America that would be able to transcend its racist past and build a brighter, more inclusive future.

Beyond the symbolic importance of breaking what the *New York Times* called the “last racial barrier,” many of Obama’s supporters anticipated that he would usher in substantial policy change.<sup>1</sup> After eight years of the George W. Bush presidency, these voters hoped Obama would find a way to ensure that all Americans had healthcare, rein in Wall Street, and finally address the mounting crisis of climate change. Progressive Democrats, in particular, were excited and energized by the results of an election that had once seemed so unlikely.

Obama did oversee the resolution of the 2008 financial crisis and the nation’s long, slow climb out of the Great Recession. He had some major legislative accomplishments, which included the Affordable Care Act (ACA), the Dodd-Frank financial reforms, and a massive economic stimulus package. Yet even before 2010, many progressives began expressing disappointment with Obama’s policy leadership.<sup>2</sup>

What stands out in retrospect about the Obama presidency is its continuity with the recent past. The truly ambitious new policies—ones that might have been top-of-mind for Democrats in 1970, or 1935—never materialized.

## 2 CHAPTER 1

This is not because such possibilities were pursued unsuccessfully; they were never even seriously considered. And the policies that *were* proposed tended to share some characteristics more commonly associated with Republican administrations: a focus on leveraging choice, competition, incentives, and the power of markets in the pursuit of outcomes that would be not just effective, but efficient.

Take healthcare policy. Obama's signal accomplishment in social policy, "Obamacare," was modeled after Republican Mitt Romney's 2006 Massachusetts healthcare reform bill. Obama's version combined elements from both Republican and Democratic health reform plans of the early 1990s.<sup>3</sup> The ACA increased the number of people with insurance, but it did not establish universal coverage or a right to healthcare. It established a complex system that sought to harness competition between insurers to keep costs down and incentivized the purchase of insurance with subsidies for those with lower incomes. The law also levied penalties against those who chose to forgo insurance. While some Democrats mentioned the possibility of universal, single-payer healthcare—which had been the party's platform in the 1970s—the insider consensus was that such an approach was not only politically unrealistic but also actively undesirable because it would fail to keep costs down.<sup>4</sup>

Financial reform offers another example. The Dodd-Frank Act, passed in the aftermath of the 2008 financial crisis, was meant to ensure that banks deemed "too big to fail" could never again threaten to bring down the entire financial system with them. Yet while the bill introduced new regulatory requirements and created the Consumer Financial Protection Bureau, Dodd-Frank did little to take on the power of the banks.<sup>5</sup> In the late 1990s, a bipartisan deregulatory impulse had led to the repeal of the Glass-Steagall Act, which had separated commercial and investment banking, and to rapid expansion of the biggest banks.<sup>6</sup> But even after the 2008 crisis, policymakers never seriously reconsidered reinstating the division between commercial and investment banks. The idea of using antitrust policy to break up the banks was never on the table.<sup>7</sup>

Or consider policies to address climate change, a core plank of Obama's 2008 campaign. The administration originally supported the Waxman-Markey Bill, a 2009 cap-and-trade bill that would have limited greenhouse gas emissions for the first time, but the proposal died in the Senate.<sup>8</sup> Obama then turned to regulation as a next-best option. New fuel economy standards and a plan to reduce power plant emissions tried to use the authority of the Clean Air Act to address climate change, with very modest success.<sup>9</sup> Both

the cap-and-trade and regulatory approaches built on an economic framework that sought to use market forces (in the former case) or cost-benefit calculations (in the latter) to achieve efficient policy results. The strategy of simply instructing government to determine safe levels of emissions and requiring firms to meet them, as Democrats might have proposed in the 1970s, was not even discussed.

Obama was, of course, faced with many constraints that shaped both the options he considered and what he could actually accomplish: Republicans in Congress, more conservative members of his own party, the particular scrutiny he received as a Black man in the White House, and, notably, the worst recession in seventy years. The limits on what he was able to realize as president are not solely explained by a failure of imagination. But what is so striking about Obama's time in Washington is not that he sought to achieve fundamental change and failed. It is how constricted the very horizons of possibility seemed to be.

Moments of crisis like 2008 can be moments of political transformation. As Rahm Emanuel, Obama's chief of staff, suggested that year, "You never want a serious crisis to go to waste."<sup>10</sup> So why, then, did the Obama administration not produce, or even seek, more fundamental change, despite coming to power during just such a crisis and having, for two full years, control of both the House and the Senate? Why did it remain committed to an incrementalist, modestly ambitious vision of government, even as the country faced unprecedented challenges? And should we expect the same from the Biden administration, which inherited much of Obama's legacy (and many of his advisors), and came to power during a global pandemic, but also at a time of greater mobilization on the political left?

There is no single right answer to this question. The Democratic Party's enduring commitment to a market-friendly, technocratic approach to policy since 1990 has many sources, including the influence of the tech and finance industries within the national Democratic Party, the ever-rightward shift of Republicans, the relative weakness of organized movements on the left, and the depth and complexity of interest-group politics in domains like health-care and climate policy. Any one of these makes transformative change hard; combined, they can make it feel impossible.

This book addresses a critical, yet underappreciated, historical change that helps explain Democrats' apparent lack of ambition, among other political shifts: the rise of a distinctive way of *thinking* about policy—what I call the "economic style of reasoning"—that has become prevalent in Washington. The economic style of reasoning is a loose approach to policy problems

#### 4 CHAPTER 1

that is grounded in the academic discipline of economics, but has traveled well beyond it. It is often perceived as politically neutral, but it nevertheless contains values of its own—values like choice, competition, and, especially, efficiency. Today, its dominance as a framework for thinking about policy problems is often taken for granted, but this has not always been the case.

In the chapters that follow, I provide an account of where the economic style of reasoning came from, how it spread and was institutionalized in Washington, and what its political effects have been. Between the 1960s and the 1980s, two intellectual communities—both initially led by liberal technocrats who thought government could solve social problems and improve the working of markets—introduced this distinctive style to new parts of the policymaking process. One was a group of systems analysts who came from the RAND Corporation and offered new answers to the age-old question, “How should government make decisions?” The other was a loose network of industrial organization economists who came to Washington to ask, “How should we govern markets?” I follow the movement of these economists and their fellow-travelers into a variety of policy domains and show how they helped to institutionalize an economic style of reasoning through law, regulation, and organizational change.

I also demonstrate the political effects of this change. The high value that the economic style placed on efficiency, incentives, choice, and competition frequently conflicted with competing political claims grounded in values of rights, universalism, equity, and limiting corporate power. As the influence of the economic style became more durable, it became harder for those competing claims to gain political purchase. While the economic style had the potential to conflict with conservative as well as liberal values, in practice, its predominant political effect has been to reinforce the conservative turn that began in American politics in the 1970s. For Republicans, economic reasoning remained a means to an end; for Democrats, the values of economics became an end in themselves.

The results of this turn continue to play out in politics today. Material interests play an undeniable role in determining which ideas get political attention in the first place. But once a particular intellectual framework is institutionalized, it can take on a life of its own, defining the boundaries of what is seen as politically reasonable. For Democrats, the institutionalization of the economic style has limited political options over the last thirty years, even as social movements and an increasingly organized left have introduced new voices and a new level of dissatisfaction with the status quo. Whether those voices will gain greater influence will, once again, depend on collective

action as well as ordinary interest group politics. But their success will also depend on their ability to reform or dislodge a way of thinking about policy that has become thoroughly naturalized, and that is much less politically neutral than it appears.

## **The Economic Style of Reasoning and Its Importance**

Philosopher Ian Hacking initially proposed the term “style of reasoning” to capture the distinctive ways of thinking made possible with the emergence of statistics.<sup>11</sup> But styles of reasoning are not scientific paradigms, nor are they particular theories or models. Instead, they are collections of orienting concepts, ways of thinking about problems, causal assumptions, and approaches to methodology.<sup>12</sup>

The economic style of reasoning is a loose approach that began turning up in Washington as early as the 1950s, but that really spread in policymaking between about 1965 and 1985. It starts with basic microeconomic concepts, like incentives, various forms of efficiency, and externalities. It takes a distinctive approach to policy problems that includes using models to simplify, quantifying, weighing costs and benefits, and thinking at the margin.<sup>13</sup> It also includes causal policy stories linked to economic theories—that, for example, investing in education will increase human capital and raise incomes.<sup>14</sup>

The style is grounded in the authority of PhD-producing economics departments, which reproduce it, certify those credentialed to use it, and, over time, gradually drive its evolution. These departments are at the center of what microbiologist and philosopher Ludwik Fleck called an “esoteric circle,” one made up of those who publish in top economics journals and create new knowledge in the discipline.<sup>15</sup>

A weaker version of the style circulates well beyond the rarified air of elite economics departments. Economics PhDs teach in law, policy, and business schools, where graduate students in other disciplines are exposed to the basics of the style. Indeed, as sociologists Tim Hallett and Matt Gougherty show in their ethnography of a public affairs program, learning to “think like an economist (without becoming one)” is integral to pursuit of the master’s degree.<sup>16</sup> An even broader set of people learn the style’s elementary concepts in Econ 101 classes, or in other undergraduate courses grounded in economic reasoning.

This much larger group of people, who lack PhDs in economics but are familiar with the basic principles of economic reasoning, make up concentric “exoteric circles” of those influenced by the economic style. Their numbers

include faculty in professional schools oriented toward it, producers of policy knowledge who apply it, and policymakers and advocates who adopt its approach, sometimes unawares.<sup>17</sup> While the inhabitants of these exoteric circles may not be familiar with the cutting edge of the discipline, what's happening at the frontiers of knowledge may not matter much for policy purposes. As economist Alain Enthoven, one of Robert McNamara's whiz kids, wrote in 1963—and others have reaffirmed—“the tools of analysis that we use [in policymaking] are the simplest, most fundamental concepts of economic theory [that] most of us learned as sophomores.”<sup>18</sup>

In practice, the economic style is a loose and flexible approach to analyzing policy problems that has evolved gradually over time. But the style does reflect two core stances whose implications can be seen playing out in a variety of policy domains. First, it maintains a deep appreciation of markets as efficient allocators of resources. This does not mean that its adherents believe that markets are perfect, that deregulation is always the answer, or that market failures are not a problem. But it does mean that they tend to see government's role as creating the legal framework that will facilitate well-functioning markets and correct for any market failures. It also means that they tend to view policy domains through a market lens. They display an affinity for introducing market-like elements—like choice and competition—into areas, such as education or healthcare, that are not governed primarily or solely as markets.

Second, the economic style places a very high value on efficiency as the measure of good policy. Once a particular objective has been democratically chosen, adherents of the economic style regard a good policy as the most cost-effective means to reach that objective. Policy goals themselves can also be evaluated through the lens of efficiency: an appropriate level of regulation, for example, is the one that will maximize net benefits to society. The economic style portrays efficiency as a politically neutral value. Any objective can be achieved in a more or less efficient manner, and who would advocate for inefficiency? Yet, as we will see, centering efficiency often means displacing other political values, or ignoring the politics behind the process of identifying efficient policy decisions.

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A brief foray into the rise of the economic style in environmental policy between 1970 and 1990 can put some empirical flesh on this abstract description. The years around 1970 saw Washington enact a major wave of

environmental policies in response to growing public concern with pollution and the rise of a powerful environmental movement. These policies, which included President Richard Nixon's creation of the Environmental Protection Agency (EPA, 1970) and Congress's passage of laws like the National Environmental Policy Act (NEPA, 1969), the Clean Air Act (1970), and the Clean Water Act (1972), had broad, bipartisan support.<sup>19</sup>

This wave of policy change was motivated by a complex mix of factors. NEPA, for example, emphasized ecological interrelations. The law declared that it would "encourage productive and enjoyable harmony between man and his environment."<sup>20</sup> The Clean Air Act focused on "the effects of air pollutants on public health and welfare."<sup>21</sup> Both the Clean Air and Water Acts were influenced by political scientist Theodore Lowi's argument for strong, inflexible rules to combat regulatory capture. They required strict standards for pollution control based on what was technologically possible, and they limited air pollution to levels that would provide "an ample margin of safety to protect the public health."<sup>22</sup> The policies were, by and large, effective, and pollution trended sharply downward in the years that followed.

This early-1970s wave of environmental legislation did not reflect much in the way of economic reasoning. Economists, who were also concerned about high levels of pollution, had a very different—yet internally coherent—way of thinking about the problem. From an economic perspective, pollution was an externality: a side effect of producing some good or service, whose cost was borne not by the consumer of that product, but by the breathers of air and drinkers of water. The solution to this market failure was to put a price on pollution, perhaps through a tax, so that consumers of polluting products, rather than members of the larger public, would bear their full cost.<sup>23</sup>

Economists were quite critical of the environmental approach taken by Congress in the early 1970s. From an economic perspective, the regulatory solutions it had settled on—rigid limits on how much pollution firms could emit and requirements that they adopt particular mitigating technologies—created problems of their own. They did not distinguish between changes that were inexpensive for firms to make and those that were very costly. They failed to acknowledge that the more pollution was reduced, the more expensive further reductions would likely be. And they did not account for the fact that, while pollution itself was unwanted, it generally accompanied some otherwise desirable activity, and limiting it would have costs.<sup>24</sup>

Economists were well-represented in the Nixon White House, but when it came to the environment, their views were largely ignored. Moreover,

in an era of ascendant environmental politics, the idea of pollution taxes struck many policymakers as morally objectionable—“a purchased license to pollute.”<sup>25</sup> One economist subtitled his retrospective analysis of the Clean Water Act, “Why No One Listened to the Economists.”<sup>26</sup> But by the time Congress revisited the Clean Air Act two decades later, the situation had changed considerably. By 1990, the economic style had pervaded many more domains, including environmental regulation.

A centerpiece of the Clean Air Act Amendments of 1990 was the Acid Rain Program. In the 1980s, acid rain—a phenomenon created by power plants expelling sulfur dioxide from multi-hundred-foot-high smokestacks—became a major environmental concern.<sup>27</sup> Falling up to hundreds of miles from these sources, acid rain destroyed aquatic ecosystems, killed trees, eroded building materials, and harmed human hearts and lungs. The Acid Rain Program was a new and ambitious bipartisan attempt to solve this problem. But while earlier environmental legislation had made ecological references to “harmony” and “the interrelations of all components of the natural environment,” Congress’s new solution drew on the economic style.<sup>28</sup> Acid rain would be cut in half by “design[ing] mechanisms . . . which take advantage of the forces of the marketplace in our economy” to protect the environment in “economically efficient” ways.<sup>29</sup>

The Acid Rain Program proposed to do this by creating the first national cap-and-trade program in the United States. Rather than requiring power plants to install “scrubbers” that would remove sulfur dioxide, it limited how much of the pollutant they could emit and gave producers credits for reductions they made beyond that requirement. Companies could then sell these credits to other companies for whom reducing emissions was more expensive. Economists argued that a market in emissions credits would reduce the amount of sulfur dioxide in the atmosphere more efficiently than simply requiring all plants to limit their emissions by the same amount.<sup>30</sup>

Economists had been writing about the possibility of tradeable permits since the late 1960s and had strongly advocated for their incorporation into the Clean Air Act amendments.<sup>31</sup> They were delighted to see Congress incorporate an approach consonant with their own style of reasoning into policy thinking about pollution. In the thirty years since its passage, the Acid Rain Program has widely been viewed as a major success, contributing to an eventual 94 percent reduction in sulfur dioxide emissions, along with parallel improvements in the effects of acid rain on ecosystems and human health.<sup>32</sup> It has since served as a model for cap-and-trade programs around the world.<sup>33</sup>

The policy differences in approach between the Clean Air Act of 1970 and its 1990 amendments may seem subtle. Both laws passed with strong bipartisan support. Both represented serious attempts to ameliorate environmental problems. And both were successful at achieving meaningful pollution reductions. But the differences between the two laws represent a transformation in the logic of environmental policy.

Over the course of the 1970s and 1980s, environmental policy turned away from a moral framework that stigmatized polluters and toward the position that pollution was simply an externality to be priced. Instead of identifying acceptable levels of pollution, the policies began focusing on the most efficient means to achieve previously designated targets. Instead of promoting technologies of pollution reduction, it pushed technologies of market design. The top-down, one-size-fits-all regulatory approach of the 1970s was delegitimated in favor of more a flexible strategy that took costs into account—but that failed to take seriously some of the practical and political advantages of the original tactic, instead simply seeing it as economically illiterate.

This growing expectation that environmental claims should be made in economic terms, at least if they were to be upheld by federal agencies and the courts, changed the political space for making them. Ecological arguments, so integral to the passage of NEPA, rested on the idea that organisms and their environment depend on one another in complex, unpredictable ways; these ideas did not translate easily into economic equivalents. Instead, the 1990s saw ecology rethought in terms of “ecosystem services”—priceable contributions the environment made to human welfare—so that such services could be incorporated into cost-benefit calculations. Yet the ecosystem services concept failed to capture the deep interdependence of the living and nonliving elements in an ecological system. It also lacked the moral appeal ecological thinking had held for many.<sup>34</sup>

Similarly, when people of color organized in the 1980s to demand environmental justice in response to the disproportionate pollution of their communities, they drew on the language of civil rights, asserting “the right to participate [in environmental governance] as equal partners.”<sup>35</sup> Yet when the EPA finally responded to these calls, it did so by turning demands for racial justice into an economic calculation of “the relative risk burden borne by low-income and racial minority communities.”<sup>36</sup> Gone were their calls to end toxic waste production and references to the sacredness of Mother Earth.<sup>37</sup>

The power of economic reasoning rests partly in its ability to bring new concerns—whether with the value of pollinators or the siting of landfills

in racialized communities—into its framework. But rethinking competing values in the language of economics often comes at the cost of some violence to the originals.

The implications of this shift toward economic reasoning in environmental policy continue to play out. The most important environmental issue of our time is climate change. But the language of moral imperative has been relegated to the margins of climate policy—perhaps something to be referenced in press releases, but not as a starting point for practical action. To be taken seriously by the Washington establishment, climate proposals must be consistent with the economic style—that is, they must understand greenhouse gas emissions as a particular kind of problem resolved by a particular kind of solution—one that fixes the market by pricing the externality. This requirement places significant constraints on the range of possibilities and types of approaches that policymakers define as reasonable. It is no wonder that more meaningful change has not taken place.



Environmental policy provides one illustration of how the economic style has changed the political conversation. But it is certainly not the only one. A wide range of policy domains adopted the language of economics between the 1960s and the 1980s. Analogous changes took place, to a greater or lesser degree, in social policy areas from poverty to healthcare to housing to education policy. Economics also gained influence in antitrust policy and in the governance of regulated industries like transportation, energy, and communications. And it affected not only environmental regulation, but regulation of public health and safety as well. In many of these arenas, economics was almost irrelevant to policy in the early 1960s; by the 1980s, its language shaped the terms of debate in domains once seen as well beyond its scope.

As was the case in environmental policy, the growing influence of the economic style went hand in hand with the declining legitimacy of competing frameworks for thinking about policy. Today, the economic style is so widespread as to be taken for granted. It was at the heart of the kinds of policies that were advocated by the Obama administration and that continue to be supported by centrist Democrats. In addition to its prevalence in climate policy, it can be seen in approaches to healthcare reform that emphasize choice and competition, means-testing, and the careful structuring of markets as a means to improve efficiency. It is reflected in an approach to antitrust that understands consumer welfare solely in terms of prices and

defines issues like “too-big-to-fail” banks as beyond its scope. In each of these areas, competing frameworks for thinking about policy—ones that open up the possibility of more ambitious change—exist. But as long as such frameworks lack the legitimacy and institutionalized support that have been put into place for economic reasoning, they will struggle to gain ground.

### **The Spread of the Economic Style of Reasoning**

Economists could be found in the federal government from the early twentieth century. They had real influence in particular policy areas—especially macroeconomic ones, like fiscal policy—in its middle decades. But the economic style of reasoning is a distinctively microeconomic approach. It brings the tools of economics to less obviously “economic” domains, like transportation governance and education policy. It only really began to take off in the 1960s, as two intellectual communities rooted in the economics discipline first brought their insights into policymaking.

One was a systems analytic group that came to Washington from the RAND Corporation at the dawn of the Kennedy administration. Kennedy’s Secretary of Defense, Robert S. McNamara, introduced an initiative called the Planning-Programming-Budgeting System (PPBS) at the Department of Defense (DOD). The systems analysts—who mostly wanted to improve, not to shrink, government—thought that they could provide neutral, technocratic answers to the question, “How should government make decisions?” Their influence spread when, in 1965, President Johnson required nearly all executive agencies to adopt PPBS. Timed to coincide with the Great Society’s dramatic expansion of social programs, PPBS introduced the economic style into welfare, health, housing, and education policy—domains where it was initially unfamiliar.

The systems analysts were joined by a second, looser network of industrial organization economists who had answers to the question, “How should we govern markets?” This network included both a liberal Harvard branch that was friendlier to government intervention and a conservative Chicago branch that was skeptical of it. Both groups, however, thought that the purpose of market governance was to promote allocative efficiency, and that the existing approach to regulation was making markets less efficient. By introducing economic reasoning to law schools, encouraging it at agencies like the Antitrust Division and the Federal Trade Commission (FTC), and building hubs in Washington—first at the Brookings Institution and later the American Enterprise Institute—industrial organization economists spread

economic reasoning into areas like antitrust, transportation, energy, and communications policy.

As the territory of economic reasoning expanded, these two communities intersected and recombined in sometimes unexpected ways. Industrial organization's focus on eliminating economic regulation—that is, price and entry controls in various industries—would be married to the systems analysts' cost-benefit approach to produce “regulatory reform”: cost-benefit analysis of environmental, health, and safety regulations. The systems analytic concern with policy efficiency would meet industrial organization's interest in market structure to promote ideas like emissions trading—as would be realized in the Acid Rain Program. While these networks were tied to different parts of the economics discipline, and focused on different policy problems, their underlying commitment to the economic style of reasoning—to the potential benefits of markets, and the value of efficiency—made them natural allies.

This book explores the arrival, institutionalization, and effects of the economic style of reasoning in the three key domains of social policy, market governance, and social regulation (that is, rules governing the environment, health, and safety). Each of these areas followed a pattern analogous to the one illustrated by environmental policy. Different ways of thinking, orthogonal to the economic style, dominated policymaking in the 1960s and into the early 1970s. But in each area, a competing approach grounded in economics was consolidating, and gradually gained influence, during this same time period. Over time, the economic style was institutionalized into the policymaking process in various ways, naturalizing it and making competing ways of thinking about policy seem less reasonable. In the chapters that follow, I demonstrate how this process unfurled in antipoverty policy, antitrust policy, environmental regulation, and various other domains.<sup>38</sup>

One major impetus for the growing influence of the economic style in the 1960s, at least in social policy and social regulatory domains, was the dramatic expansion of the federal government. With the War on Poverty and its associated Great Society programs, the Johnson administration raised the government's ambitions for antipoverty, healthcare, housing, and education policy. Another wave of growth, this one focused on social regulation, followed under Richard Nixon's watch: the Occupational Safety and Health Administration (OSHA), the National Highway Traffic Safety Administration (NHTSA), and the EPA were all created around 1970. In many policy domains, the spread of the economic style might best be understood as an

attempt—mostly from the political center—to rationalize and temper this expansion of government.

In market governance, which saw less dramatic policy change during these years, the economic style spread via a different path. The United States' existing market governance regime had largely been put in place by the 1930s, primarily to ensure stability and access to markets at equitable prices. By the 1970s, many different actors, from consumer activists to populist politicians to Chicago economists, were coming to see this style of market governance as obsolete. The economic style, initially advanced by centrist Democrats, provided a compelling alternative framework and found influential allies on the populist left.

Critically, I argue that in contrast with accounts centered on the Chicago School, neoliberalism, and the Mont Pelerin Society, the most important advocates for the economic style in governance consistently came from the center-left. In none of these cases did the initial push for economic reasoning come from the political right. Over and over again, the economic style was introduced to policymaking by technocrats associated with the Democratic Party who wanted to use government to solve social problems. When Chicago School adherents did play a role in certain policy domains, particularly in the 1970s, they were decidedly more skeptical of the positive potential of government. But this is not, first and foremost, a story of right-wing economists pushing for smaller government and freer markets.

Yet whether they came from the left, right, or center, economists and other advocates of economic reasoning became increasingly active in various policy domains after 1965. As they did, the economic style was institutionalized to varying degrees through organizational change, legal frameworks, and administrative rules. Some parts of the federal bureaucracy created entirely new offices oriented toward economics; others expanded and upgraded the role of economics in existing offices. In the process, these offices sometimes reshaped how whole agencies thought about policy. Outside of government, law and policy schools hired economics PhDs and introduced economic reasoning into their curricula, while new funding streams fed the growth of economics-oriented policy research organizations that also helped set policy agendas. At the same time, economists helped to shrink or close government offices whose orientation directly conflicted with economic reasoning.

Evolving legal frameworks also helped institutionalize the economic style. At times, economists worked to tear down old frameworks that clashed with economic reasoning, as in their support for legislation dismantling the regulation of the airlines, rail, and trucking. At others, they built a constituency

for new frameworks, as in their advocacy of an efficiency-centered vision of antitrust—a long-term project that was realized as the antitrust agencies, law schools, and eventually the Supreme Court came to agree with them. Administrative rules offered a third pathway through which the economic style was reproduced. Executive orders and agency rulings, for example, expanded the use of cost-benefit analysis in issuing environment, health, and safety regulation.

Institutionalizing the economic style through organizational change, legal frameworks, and administrative rules did more than increase the presence of economists, their allies, and their way of thinking in policymaking spaces. It also created a positive feedback loop. Institutionalizing economic reasoning in one location tended to generate more demand for it in another, as when Congress responded to the executive branch's growing analytic capacity by creating the Congressional Budget Office (CBO) to provide itself with such capacity. And hiring staff to meet one kind of analytic demand—for example, to conduct cost-benefit analysis—could also create a constituency of enthusiasts for the economic style who would promote its further expansion.

As the economic style of reasoning pervaded Washington, its previously unthinkable approaches to policy problems began to seem obvious, even intuitive. Deregulating railroads stopped seeming “heretical,” as economist John Meyer declared the idea in 1959, and became the conventional wisdom.<sup>39</sup> Democratic members of Congress no longer saw the taxing of emissions and effluents as providing a “license to pollute,” but as the most reasonable response to managing environmental quality—unless, even better, it might be possible to create a market for emissions credits. And bureaucrats increasingly made social policy decisions through a lens of cost-effectiveness, in which it seemed only sensible to limit access to public programs to those who could not afford to pay.

The economic style became a taken-for-granted approach to policy problems, one that was embedded in the state: in bureaucratic offices, in the ecosystem of policy organizations surrounding the federal government, and in the law and policy programs that trained the staff of both. Of course, politicians did not always use economic language, challenger groups continued to make other kinds of claims, and economists themselves remained frustrated at the sheer irrationality of much of the policy process. But within the technocratic communities of think tanks, regulators, bureaucrats, and professional schools—communities that played a critical role in setting the policy agenda and laying out political possibilities—“thinking like an economist” had become the new norm.

## The Political Effects of the Economic Style

The economic style of reasoning provided an intellectual tool kit for thinking about policy problems. Many of its advocates saw it as value-neutral and were not themselves particularly partisan. Typically, they hoped economic reasoning would promote more rational decision-making in a process that was, most of the time, fundamentally illogical.

But the economic style was more than an approach to thinking about problems. Values were also built into economic reasoning—first and foremost, the value of efficiency. Indeed, Charles Schultze—Johnson’s budget director, chair of Carter’s Council of Economic Advisers, and archetype of the Democratic economist—famously argued that economists’ most important job in Washington was to serve as “partisan efficiency advocates.”<sup>40</sup> From welfare to health to housing policy, from regulatory to antitrust to environmental policy, the economic style made efficiency its cardinal virtue.

Efficiency, for economists, came in multiple varieties—productive, allocative, Kaldor-Hicks—the details of which we will save for later. Yet in each of our broad policy domains, economists saw some type of efficiency as a central guiding value. In social policy, the economic style typically valued policies that provided the most (measurable) bang for the buck—that is, that were cost-effective. In market governance, it valued the kind of efficiency produced by well-functioning markets not subject to failures like monopoly or unpriced externalities. And in social regulation, it valued policies that maximized societal benefits while minimizing societal cost.

While the virtues of these kinds of efficiency may seem self-evident, the pursuit of efficiency frequently conflicted with commitments to competing values. Advocates for national health insurance, for example, made their case by centering the right to medical care, equality of access, and universalism as important, whether for moral reasons or for political viability. If efficiency were the measure of good policy, however, the best healthcare program should be based on means-testing and cost-sharing, not universal full coverage, as it would provide the maximum amount of medical care at the minimal cost to government. Advocates of robust antitrust enforcement might rail about the political power of big business, or point to the role of small business in the fabric of local communities. These values conflicted with an economic vision that took no position on the desirability of small businesses or the danger of big ones, so long as prices remained at competitive levels. And advocates of strict environmental regulation might take that position because of concerns with the immeasurable ecological impacts of

pollution, because of a belief that polluters should be punished, or because they thought rigid standards would make it harder for polluters to weaken environmental protections. Yet all these positions clashed with the economic idea that regulation should prioritize the maximization of measurable net benefits, while setting aside the morality of pollution and “political” questions like policies’ practical viability or the issue of gained and who lost.

Economists, of course, were neither monolithic nor monomaniacally committed to efficiency. Many were deeply aware that the values inherent in the economic style conflicted with other values that they, themselves, might hold. Alice Rivlin, later founding director of the CBO, wrestled with these conflicts in 1960s memos to her colleagues as a young economist at the Department of Health, Education, and Welfare (HEW).<sup>41</sup> Kenneth Boulding, as president of the American Economics Association, addressed them in a 1968 lecture to the discipline titled “Economics as a Moral Science.”<sup>42</sup> Arthur Okun, the chair of Johnson’s Council of Economic Advisers, wrote *Equality or Efficiency: The Big Tradeoff* in 1975 to grapple with exactly these issues.<sup>43</sup> In the end, most decided that the benefits conferred by using the economic style—benefits that often had few advocates in the self-interested world of politics—outweighed the risk of squeezing out values less integral to economics.

Yet as the economic style was, in fact, institutionalized in various policy domains, and as considerations of efficiency were naturalized and sometimes legally required, it became harder for policymakers to make arguments based on these competing logics. How much harder depended on how fully the economic style was institutionalized, which varied across policy domains. Where the language of economics came to dominate, but its use was not built into formal rules, other arguments simply came to seem less legitimate. But where elements of the economic style were integrated into more formal decision-making processes, like legal frameworks, the barriers to challenging it rose. A series of Supreme Court decisions, for example, made consumer welfare—understood as allocative efficiency—the sole legitimate goal of antitrust policy.<sup>44</sup> This meant that advocates of alternative goals would not only have to convince others that their way of thinking was legitimate, but would actually have to change the law. This was a formidable task.

Many enthusiasts of the economic style wanted to use government to solve problems. They saw the style as an apolitical way to improve its effectiveness. But the collective effects of the economic style were less liberal than such advocates might have preferred. This, in turn, often placed Democratic economists into opposition with other members of the Democratic

Party. By the 1980s, for instance, Democratic advocates of the economic style typically preferred—on grounds of efficiency—housing programs that provided vouchers to low-income families instead of investing in public housing.<sup>45</sup> Democratic economists opposed universal health insurance, advocated against a universal family allowance, and thought tuition-free higher education was misguided. Centering efficiency repeatedly put Democratic advocates of the economic style into conflict with those they were otherwise politically aligned with.

The economic style could conflict with conservative values as well as liberal ones. For example, economists' focus on efficient solutions to poverty, like the negative income tax, left them relatively uninterested in the moral virtue of work, a central concern of conservative welfare reformers. And economists might advocate for public spending on health and education programs on the grounds that the payoffs in terms of human capital were likely to exceed the costs, while conservatives might prefer a smaller government role on philosophical, not economic, grounds.

On balance, though, the spread of economic reasoning was not as constraining for conservatives as it was for liberals for several reasons. First, value conflicts between the economic style and conservative positions were less frequent. Liberal economists of the 1970s, for example, typically supported less economic regulation and more limited antitrust enforcement, which aligned with conservatives' preferences as well. Second, the economic style prescribed government efficiency, but often implied no clear position on what government should or should not try to do. In practice, this meant that its advocates often argued against specific liberal programs—like the early 1970s push for a universal family allowance—on efficiency grounds, while supporting a more efficient alternative—like a negative income tax.<sup>46</sup> Yet when conservatives simply argued against using government to solve poverty, from either a moral or a practical perspective, advocates of the economic style had fewer compelling counterarguments.

More broadly, though, conservatives were better at using the economic style strategically, in pursuit of noneconomic objectives. This was true to some extent as early as the Nixon administration, which supported basic income experiments (favored by economists) in part because experiments defused activists' push for broader antipoverty programs. This phenomenon was particularly visible under Ronald Reagan, whose appointees used the economic style when convenient, and ignored it when not. The Reagan administration slashed support for economic analysis in social policy areas, where the president expected it to prop up the welfare state, while expanding

it in areas like antitrust and environmental policy, where he thought it would support his preference for less regulation.

Ultimately, Republicans proved more willing than Democrats to simply ignore economic reasoning when it conflicted with other, more fundamental values or interests. The Carter administration, for example, substantially expanded cost-effectiveness analysis of regulation on efficiency grounds, even though the left wing of the Democratic Party opposed such moves. Reagan, though, shifted the focus to “regulatory relief”—simply removing regulations, regardless of whether their benefits outweighed their costs—out of commitment to small-government ideals and support for business interests. This difference set the stage for how Democrats and Republicans would continue to interact with the economic style over the next thirty years. In short, the economic style constrained Democrats, while Republicans used it strategically.

### **What Makes This Story Different**

Many scholars have written about the political and economic transformation that began in the United States in the 1970s and continues to the present, sometimes subsumed under the term “neoliberalism.” Economically, the nation saw a long, steady rise in inequality, as corporations became stronger, unions became weaker, median incomes flattened, and wealth began to concentrate.<sup>47</sup> Politically, it changed as well. Ronald Reagan promised to “bring our government back under control,” and put it “on a diet.”<sup>48</sup> But Democrats, too, became more business-friendly, more market-friendly, and reined in their expectations of what government could, and should, do.<sup>49</sup>

Multiple factors contributed to this transformation—global economic changes that were pressuring the United States in new ways, the fracturing of political coalitions and party realignment, collective action among the conservative grassroots and business elites.<sup>50</sup> On the ideological side, scholars have emphasized the limited-government, free-market ideology of the Chicago School and Mont Pelerin Society and the role of conservative think tanks and legal institutions.<sup>51</sup>

What the account presented here does is turn our attention in a new direction—toward an economic style of reasoning that is not associated with the right, that is not explicitly political (and indeed gets part of its power from its appearance of neutrality), and that has been advanced by Democrats even more than Republicans.

This substantially challenges our thinking both about what changed politically in the 1970s and about what the lasting consequences of those changes have been, particularly for the political left. I do not claim that the economic style of reasoning directly *caused* Democrats' rightward shift, which was driven by many factors. That is, I do not argue that, had economists been absent, Democrats would necessarily have remained committed to New Deal ideals, or ecological conceptions of the environment, or remained more "liberal" in any meaningful sense.

Instead, I make a subtler claim: that the economic style—and in particular its institutionalization through legal frameworks, administrative rules, and organizational change—was the channel through which such a shift was made durable. This shift made it much harder for competing claims, grounded in different values and ways of thinking, to gain political purchase. Centrist technocrats' efforts to advance the economic style reinforced the conservative turn in politics by undermining some of Democrats' most effective language—of universalism, rights, and equality—for challenging it. Understanding how this change occurred and why its effects have been so lasting is critical to understanding the larger political legacy of the 1970s.

This insight reorients the scholarly conversation, and particularly that part of it that focuses on how ideas have reshaped politics, in several ways. First, it points our attention toward the political center-left, and not the right. With rare exceptions—particularly sociologist Stephanie Mudge's impressive work on policy economists and the political left—accounts of the intellectual currents of this period have focused heavily on the rise of free-market economic ideology, with the implication that liberals were simply dragged toward a center that shifted rightward.<sup>52</sup> But technocratic centrism has its own underlying ideology that is just as important to understand. It should be seen as an independent force, not just a downstream effect.

Second, this account emphasizes the role of micro-, rather than macro-, economics. Again, while the occasional scholar—notably, historian Daniel Rodgers in *Age of Fracture*—has highlighted the importance of microeconomics as a distinctive way of seeing the world, the vast majority of scholarly attention has focused on macroeconomics, and particularly paradigm shifts from Keynesianism to monetarism or supply-side economics.<sup>53</sup> But while it is true that macroeconomics has long had influence in domains traditionally thought of as "economic policy" (fiscal policy, monetary policy), the spread of a distinctively microeconomic style of reasoning has dramatically extended the reach of the discipline by bringing all sorts of new policy domains, including those not obviously "economic," under its influence.

Third, this approach focuses on a diffuse *style of reasoning*, not economic policy advice. Most work has focused on the recommendations economists make to decisionmakers and whether they matter or not, or perhaps the position of economics in organizations like the Federal Reserve, where economists have decision-making authority.<sup>54</sup> But a close look at the more diffuse, but pervasive, style of reasoning about policy problems shows how the indirect influence of the economics discipline can be much greater than the direct influence of economists' policy advice. The economic style is not just advice from economics PhDs. It is a way of thinking that has become embedded in bureaucratic expertise and that is reproduced in the organizations and institutions in and around government.

Last, I draw our attention to how the economic style is embedded in the state itself, and not just advanced by overtly political actors. Most efforts to understand the political role of economics have emphasized the role of various groups, like business elites or conservative intellectuals, who have sought to leverage particular forms of economics to achieve specific political goals.<sup>55</sup> But the economic style of reasoning was not proposed as a self-consciously political project, and its power is partly a function of its perceived neutrality. The style's ongoing influence and its continued reproduction rests significantly on its embeddedness within government bureaucracy.

### **What It Means Today**

This story is of more than historical or academic interest. It also has lessons for how we should think about the present political moment. The economic style of reasoning—anchored in the authority of the economics discipline, but extending well beyond it—is still dominant in and around many government organizations. It is dominant in places like the Congressional Budget Office, agency-level policy offices, and at most of the think tanks that produce policy options. It also remains dominant in public policy schools, and influential in law schools as well. This institutionalization means that a whole range of actors are constantly generating potential policies compatible with the economic style for the policy stream.<sup>56</sup> It also means that solutions grounded in other forms of reasoning are often rejected out of hand by those who populate such organizations (and others who look to them for cues) as objectionable, irrational, or inappropriate.

The institutionalization of the economic style, and the marginalization of alternatives, helps explain why the universe of options considered by the Obama administration seemed so impoverished to those on the left.

Democrats drew inspiration for their new policy options—from Obamacare to the Race to the Top program that encouraged states to compete for federal education dollars—from the economic style. When outside voices mentioned more ambitious possibilities—from Medicare for All to breaking up big tech—the policy establishment tended to dismiss them as unreasonable, by which they meant incompatible with the economic style. While these dynamics continue to evolve, their legacy has shaped the options available to the Biden administration.

A style of reasoning does not exist outside material interests. The economic style poses a barrier to more aggressive antitrust policy, but so, too, do the objections of powerful companies with deep pockets. A mutually advantageous relationship exists between those who benefit from the status quo and those whose way of thinking about the world tends to defend it. And when critics grow too loud, they may find powerful interests lining up against them. For example, when in 2017 the antitrust program at the New America Foundation, a prominent liberal think tank, became too vocally critical of the economics-dominated antitrust regime and its complacency about big tech, it ran afoul of Google, a major funder of the think tank, and found itself cut loose.<sup>57</sup> Similarly, while economists may question universal health insurance on efficiency grounds, it is the opposition of insurance companies, physician's associations, hospitals, and pharmaceutical companies whose profits it threatens that presents the most formidable barrier.

We know that strong public demand for a policy can overcome entrenched interests, particularly when it aligns with arguments made by intellectual elites.<sup>58</sup> If those elites dismiss such demands as unreasonable, though—that is, as inconsistent with the dominant style of reasoning—it will make the barriers to defeating those interests that much more formidable, even in the face of organized social movements. If policies with strong grassroots support, like Medicare for All, are dismissed as not sensible by think tanks reflecting the dominant approach (for example, Brookings) as well as by government organizations reflecting the economic style (for example, the Congressional Budget Office), the barriers will be high indeed. This is true not just for healthcare, but also in antitrust policy, climate policy, student debt policy, and many other areas.

This sort of constraint is much stronger for Democrats than Republicans. Although the economic style can certainly be found in conservative think tanks, the right has a much deeper bench of institutions grounded in other, noneconomic principles (for example, the Federalist Society, or the Cato Institute). The left wing of the Democratic Party has had some success in

the past few years in getting its preferences on the policy agenda, mostly in areas where grassroots organizing has been accompanied by investment in an alternative intellectual infrastructure. Proposals for policies that have only recently moved inside the Overton window, like student debt cancellation, or breaking up big tech companies, or the Green New Deal, have been advanced by successful left-Democratic politicians (Bernie Sanders, Elizabeth Warren, Alexandria Ocasio-Cortez) working with a range of experts and activists, including economists not committed to the economic style.

More important than the advisors sought out by any single politician is the larger infrastructure that produces, and reproduces, particular ways of thinking about policy options. Smaller—but growing—think tanks like the Roosevelt Institute, Demos, and the Economic Policy Institute tend to be less attached to the economic style, and the economists they do rely on are often less central in disciplinary networks and more open to alternative approaches. Many of the ideas they advocate either emerged from, or have been taken up by, different intellectual networks on the edges of the economics discipline (for example, the baby bonds proposal to redress the racial wealth gap). Others come from legal circles developing alternatives to economic reasoning (the law and political economy movement), or from foundation spaces interested in promoting alternatives (the Hewlett Foundation's "Beyond Neoliberalism" initiative).<sup>59</sup>

New think tanks and research organizations have emerged in this space as well—the People's Policy Project, Data for Progress, the Open Markets Institute to name only a few—although they have a smaller donor base than their centrist counterparts. And as the grassroots left gains strength within the Democratic Party, the larger center-left think tanks find themselves more frequently inviting in experts whose policy positions are decidedly not grounded in an economistic, cost-benefit approach.

As of this writing, in the early days of the Biden administration, the political future of the United States is very much in flux. On the one hand, fascist and antidemocratic movements threaten to upend—and perhaps destroy—not only the current political order, but democracy itself. On the other, we have managed to successfully muddle our way through the presidential transition. The Biden administration is faced with the temptation to try to return to the past—to revive an Obama-era approach, which itself requires pretending that an Obama-era politics is even a possibility after the Trump years. But Biden came to office at a time when the progressive wing of the party was historically energized. The administration's early actions seem to signal a recognition that a third Obama administration is neither possible nor desirable.

The influence of this energized left wing will depend on two things. One is grassroots strength—from on-the-ground organizing, demographic change, and rejection of both Trumpism and the status quo that allowed it to emerge. But translating this into policy will require reckoning with the dominance of the economic style. This will mean either working to make it more open to alternative ways of thinking about policy, or—more likely—building intellectual frameworks, networks, and institutions that circumvent it and that can provide competing, and less limiting, ways of thinking about policy problems. For those sympathetic to such goals, when our political values align with those of economics, we should embrace the many useful tools it has to offer. But when they conflict, we must be willing to advocate, without apology, for alternatives—rather than allowing our values to be defined by the values of economics.

## INDEX

- Aaron, Henry, 186  
Abt Associates, 115  
ACA (Affordable Care Act), 1–5, 20–21.  
    *See also* healthcare policy  
accountability (educational), 111, 114,  
    125–26  
Acid Rain Program, 8, 12  
administrative rules, 14, 141–49, 154–59,  
    162–76, 211–15, 220, 231–32. *See also*  
    communications policy; cost-benefit  
    analysis; deregulation; environmental  
    protections; transportation policy  
AEA (American Economics Association), 16  
AEC (Atomic Energy Commission), 161  
AEI (American Enterprise Institute), 11–12,  
    74, 94–96, 212  
AFDC (Aid to Families with Dependent  
    Children), 118. *See also* welfare policy  
AFL-CIO, 159  
*Age of Fracture* (Rodgers), 19  
Air Force, 42–44, 46–51, 54  
Airline Deregulation Act, 149  
Alchian, Armen, 49  
Allison, Graham, 65  
allocative efficiency, 11, 16, 38, 72–75, 85–95,  
    132–49, 187–92, 210, 221, 225–26  
Altman, Stuart, 123, 183, 185  
AMA (American Medical Association), 185  
American Bar Association, 209  
*American Economic Review*, 121  
American Petroleum Institute, 170  
*American Textile Manufacturers v. Donovan*,  
    193, 215  
Anderson, Jack, 137  
Antitrust Division (of DOJ), 74, 85–88, 94,  
    131, 134–39, 143–44, 189–91, 206–10  
*Antitrust Law* (Areeda and Turner), 191  
*The Antitrust Paradox* (Bork), 140, 191  
antitrust policy, 10–15, 85–96, 129–41, 149–53,  
    185–202, 206–11, 218–27, 231. *See also*  
    allocative efficiency; corporate power;  
    law and economics; monopoly; *specific*  
    *legislation and legal decisions*  
*Antitrust Policy* (Kaysen and Turner), 77, 189  
Antitrust Project, 79–80  
*Apex Hosiery v. Leader*, 133  
A&P supermarkets, 133  
Areeda, Phillip, 83, 190  
Army Corps of Engineers, 162  
Arrow, Kenneth, 49, 120  
Arrow-Debreu model, 36  
Ashenfelter, Orley, 61  
ASPE (Office of the Assistant Secretary  
    for Planning and Evaluation), 66–67, 69,  
    102, 105–15, 118, 120, 122–23, 182–84, 186,  
    197–98, 203–5. *See also* HEW (Depart-  
    ment of Health, Education, and Welfare)  
ASPER (Office of the Assistant Secretary for  
    Policy, Evaluation, and Research), 61, 67,  
    109, 197–98. *See also* DOL (Department  
    of Labor)  
Association for Public Policy Analysis and  
    Management, 65  
AT&T, 150–51, 198  
Auchter, Thorne, 214  
auto industry, 162–63. *See also* corporate  
    power; environmental protections; Nader,  
    Ralph; NHTSA (National Highway Traffic  
    Safety Administration)  
  
Backhouse, Roger, 37  
Bailey, Elizabeth E., 148  
Bain, Joe, 81, 251n11  
Bakes, Philip, 147  
Bane, Mary Jo, 206  
Barber, Walter, 170–71  
Bateman, C. Worth, 106, 118–19  
Baumol, William, 112  
Baxter, Bill, 207–9, 273n39  
Becker, Gary, 83–84  
Bell, David, 55  
Bergman, Barbara, 69

320 INDEX

- Bernstein, Marver, 89  
Biden, Joseph, 21–22, 229–31  
big business. *See* corporate power  
Bingham, Eula, 177  
Blue Cross/Blue Shield, 185  
BOB (Bureau of the Budget), 54–59, 62–67,  
89–90, 97, 101–5, 113, 162, 193, 250n183  
Bok, Derek, 83  
Bork, Robert, 80, 135, 140–41, 190–91, 210  
Boulding, Kenneth, 16  
Bowman, Ward, 80, 83, 94, 135  
Brennan, William, 134  
Breyer, Stephen, 83, 143–45, 147, 252n51  
Brookings Institution, 11–12, 21, 30, 55, 74,  
89–96, 106, 143–44, 146, 167, 183, 224,  
272n108  
Brown, Lawrence, 122  
*Brown Shoe Co. v. the United States*, 133, 136,  
140  
*Brunswick Corp. v. Pueblo Bowl-O-Mat*, 140,  
190  
“bubble” policy (of EPA), 172–76  
*Budget Options* (publication), 69  
Bureau of Agricultural Economics, 29–30, 60  
Bureau of Competition, 210  
Bureau of Economic Analysis, 29  
Bureau of Economics (FTC), 85–86, 94,  
96–97, 138–39, 147–48, 185  
Bureau of Foreign and Domestic Commerce,  
29  
Bureau of Labor Statistics, 29  
Bureau of Reclamation, 162  
Bush, George W., 1  
*Business Week*, 110  
Butler, Lewis, 122  
  
CAB (Civil Aeronautics Board), 74, 88,  
141–42, 145–49, 166  
Calabresi, Guido, 84  
Califano, Joseph, 55–56, 102, 186  
*Calvert Cliffs’ Coordinating Committee, Inc. v.*  
*AEC*, 161  
Campbell, Thomas, 210  
Cannon, Howard, 146  
CAP (Community Action Program), 100–104,  
117  
cap-and-trade, 2–3, 8–9, 14, 155–56, 171–76,  
226, 275n16  
Capron, William, 55, 248n79  
carbon taxes, 226. *See also* cap-and-trade;  
climate change  
Carnegie Mellon, 64  
Carnegie Tech, 63  
Carson, Rachel, 156  
  
Carter, Jimmy, 15, 18, 69, 128, 139, 145–53,  
166–71, 176–86, 191–99, 203, 211, 216,  
221–25  
Cato Institute, 21–22  
Caves, Richard, 89–91  
CBO (Congressional Budget Office), 14,  
16, 20–21, 60, 68–70, 102, 120, 127, 180,  
206, 227  
CEA (Council of Economic Advisers),  
15–16, 28–35, 54–58, 89–96, 100, 117–18,  
143–46, 159–67  
Celler-Kefauver Act, 76, 133, 136  
Center for the Study of Government Regula-  
tion (AEI), 95  
Central Bureau of Planning and Statistics, 27  
Chamberlin, Edward, 76, 79  
Chicago Law School, 82–84  
Chicago School (of I/O economists), 11–13,  
18, 42, 79–97, 130–43, 153, 184–90,  
202–11, 222–23  
Child Health Act, 113  
choice, 4, 47–50, 125–26, 131–35, 185. *See also*  
competition; consumer welfare; markets  
civil rights logics, 9, 98–99, 119–28, 157–58,  
176–79, 181–82, 217–19, 228–29  
Clayton Antitrust Act, 76, 83, 136  
Clean Air Act, 2–3, 7–9, 154, 157–63, 169–  
75, 192–93, 196, 213, 215, 241n27  
Clean Air Act Amendments (1977), 173–74  
Clean Water Act, 7–8, 154, 157–59, 192–93,  
196, 213  
climate change, 9–10, 226, 231–32, 275n16  
Clinton, Bill, 1, 200, 206, 217–19, 221, 229,  
232  
*The Closed Enterprise System* (Nader),  
187–88  
Coase, Ronald, 30, 83, 91, 94, 252n53  
Cohen, Wilbur, 117–18  
Colander, David, 37  
Cold War, 44–50  
Collins, Robert, 34  
Columbia University, 27  
command-and-control regulations. *See*  
administrative rules; deregulation  
Committee for National Health Insurance, 121  
Commons, John, 26–27, 29, 32  
communications policy, 11–12, 130, 142,  
150–52, 198  
competition, 4, 119–24, 132–39, 185, 206–11,  
218. *See also* economic style of reasoning;  
markets  
“Competition in the Health Care Sector”  
(Conference), 185  
Comprehensive Health Insurance Plan, 183

- conservative turn, 4, 26–27, 124–25. *See also* Carter, Jimmy; Reagan, Ronald
- Consumer Financial Protection Bureau, 2
- Consumer Protection Agency, 192
- consumer welfare, 10–11, 92, 129–49, 154–59, 187–92, 197–98, 210, 218–27. *See also* allocative efficiency
- Continental Television, Inc. v. GTE Sylvania, Inc.*, 140, 190
- corporate power, 4, 73, 81–95, 132–33, 152–53, 176–82, 187–200, 202–11, 217–20, 225. *See also* antitrust policy; Democratic Party; monopoly
- Costanza, Robert, 228
- cost-benefit analysis, 5, 7, 9, 11–12, 15; Congressional uses of, 68–70; education policy and, 125–26; environmental policy and, 154–66, 170–78, 228; Great Society programs and, 102–28; healthcare policy and, 182–87; market optimization and, 75–81; partisan uses of, 202, 211–16, 218, 220, 224; PPBS and, 52–54, 70–71; productive efficiency and, 38; social regulations and, 154–56, 161–68, 192–99; systems analysis and, 48–50. *See also* deregulation; economic style of reasoning; PPBS (Planning-Programming-Budgeting System)
- Costle, Douglas, 170–71
- cost-sharing, 15, 99, 119–24, 220
- Council on Environmental Quality (CEQ), 160
- CPSC (Consumer Product Safety Commission), 157
- criteria problem, 47–48, 52
- CRS (Congressional Research Service), 68
- CWPS (Council on Wage and Price Stability), 146, 165–67, 171, 177, 194–95, 212
- Data for Progress, 22
- Davis, Karen, 183–84
- Day, Gretchen, 228
- DDT (pesticide), 156
- democratic participation, 39–40, 98–105, 116–28, 181–82, 197–98, 203–4, 220–22
- Democratic Party: administrative rules and, 156–59; alternative value frameworks of, 15–18, 127; business-friendliness of, 18; community action programs and, 102–3; economic style of reasoning and, 1–5, 10, 13, 16, 18–20, 96, 220; populists among, 187–92, 198–200, 219–20, 224–30; technocracy and, 3–4, 19–22, 51, 56, 99, 123–26, 132, 142–43, 166–68, 179–82, 195–96, 216–23. *See also specific presidents and legislation*
- Demonstration Cities and Metropolitan Development Act, 101
- Demos, 22
- deontology, 39. *See also* morality (as external to economic style); rights; universalism
- Department of Commerce, 28–29, 34, 74
- Department of Education, 125, 204
- Department of Interior, 61, 167
- “dependency” thesis, 204–6
- deregulation, 88–95, 129–32, 141–52, 161–68, 196–98, 206–15
- Derthick, Paul, 146
- Director, Aaron, 79–80, 82–83, 94, 138
- disability rights, 267n88, 267n99
- distributive justice, 187, 191–92, 218, 226, 229
- Diver, Colin, 160
- DOD (Department of Defense), 11, 43, 50–54, 59, 67, 86, 101, 103
- Dodd-Frank Act, 1–2
- DOL (Department of Labor), 29, 58–59, 67, 109, 115, 197–98, 203
- Dorfman, Robert, 49
- DOT (Department of Transportation), 74, 89–91, 97, 114, 130, 143–45, 167
- Drayton, William, 171, 174
- Dr. Strangelove* (Kubrick), 44
- Duke University, 64
- DuPont, 163
- The Dynamic of Dependence* (Bane and Ellwood), 206
- Eads, George, 146, 165, 194–95, 266n68
- ecological arguments, 7–9, 154–61, 168–76, 179, 227–29
- Economic Analysis of Law* (Posner), 84
- Economic Impact Statements, 164
- Economic Opportunity Act, 100, 105–6, 116, 119
- Economic Policy Institute, 22
- Economic Policy Office, 209
- Economic Report of the President* (1963), 89
- Economics* (Samuelson), 32, 36–37
- “Economics as a Moral Science” (Boulding), 16
- The Economics of Competition in the Transportation Industry* (Meyer, Peck, Stenason, and Zwick), 78, 90, 96–97
- The Economics of Defense in the Nuclear Age* (Hitch and McKean), 52–53
- The Economics of Imperfect Competition* (Robinson), 251n6

322 INDEX

- “The Economics of Moral Hazard” (Pauly), 121
- The Economics of Regulation* (Kahn), 147
- economic style of reasoning, 15–20; antitrust policy and, 10, 14–16, 21, 85–88, 130–35, 187–92, 206–11; centralized authority and, 102–10; competing value frameworks and, 7–8, 12, 15–18, 20–23, 39–40, 51, 57, 73, 87–88, 97, 100–101, 116–26, 132–59, 168–78, 181–82, 195–200, 217–19, 224–32; conservatives’ instrumental uses of, 15–18, 21–22, 116–26, 162–68, 171, 178–79, 183, 195–96, 201–6, 214–21, 225; definitions of, 3–6; environmental policy and, 2–3, 6–10, 14, 160–63, 169–76; Great Society programs and, 98–99, 107–10; institutionalization of, 5, 10–14, 16, 19–23, 25–28, 40, 54–66, 95–97, 102–16, 124–28, 136–39, 142–52, 178–79, 192–96, 226–29; law schools and, 27, 40, 73–74, 81–84, 86, 134–35, 219–20, 223, 226–29; microeconomics and, 19–20, 24–26, 37–41, 81–84, 191, 221–22; social regulation and, 11–14, 88–92, 154–59, 176–78, 192–96, 211–15; values of, 3–4, 15–18, 38–39, 57–58, 72–75, 98–99, 180–82. *See also* administrative rules; deregulation; law and economics; PPBS (Planning-Programming-Budgeting System); systems analysis; welfare policy
- Economists for Inclusive Prosperity, 232
- ecosystem services, 228
- educationists, 125, 127–28
- education policy, 11, 17, 20–21, 50–51, 66, 125–26, 272n108
- efficiency: allocative, 11, 15–16, 38, 72–75, 85–95, 132–49, 187–92, 210, 221, 225–26; competition and, 4, 119–24, 130, 132–39, 185, 206–11, 218; Kaldor-Hicks, 38; microeconomics and, 11–14, 19, 24–26, 37, 81–84, 191, 221–22; as primary value, 4, 6, 56, 116–26, 130, 136–39, 168–76, 195–98, 215–16, 218–22, 225, 231; productive, 15, 38. *See also* cost-benefit analysis
- Efficiency in Government through Systems Analysis* (McKean), 50
- EHAP (Experimental Housing Allowance Program), 109, 115, 124–25
- Eisenhower, Dwight D., 51–52, 74
- Eisner, Marc, 141
- Elementary and Secondary Education Act, 55–56, 98–100, 111, 116
- Ellsberg, Daniel, 49, 51
- Ellwood, David, 206
- Ellwood, Paul, 122, 185
- Ely, Richard, 32
- Emanuel, Rahm, 3
- emissions trading. *See* cap-and-trade
- Employment Act (of 1946), 33
- The End of Liberalism* (Lowi), 158
- energy policy, 11–12, 130, 142, 150–52
- Enthoven, Alain, 6, 49, 51, 53, 59, 96, 151, 186, 218
- Environmental Equity Workgroup, 229
- Environmental Impact Statements, 161, 164
- environmental justice movement, 228–29
- environmental protections, 2–10, 14, 38, 154–61, 169–71, 192–96, 211–20, 224–29. *See also* ecological arguments; regulatory capture
- Environmental Quality Report, 160
- EPA (Environmental Protection Agency), 7–12, 61, 154–57, 163–79, 194–95, 213–15, 229, 269n140, 274n72
- EPO (Economic Policy Office), 87, 94, 137
- EPSA (Educational Program in Systematic Analysis), 63–65
- equality, 98–101, 116–28, 176–78, 181–82, 191–92, 196–98, 217–20
- Equality or Efficiency* (Okun), 16
- equity, 4, 127–30, 149–50, 187, 198, 218, 231–32
- European Union, 226, 275n16
- Executive Order 12291, 212
- externalities, 5, 7–8, 83, 172–76, 245n89. *See also* pollution
- Exxon, 163
- Fair Housing Act, 101
- fairness, 191–92. *See also* equality; equity; universalism
- family allowances, 117
- FAP (Family Assistance Plan), 119, 197, 204
- FCC (Federal Communications Commission), 61, 142, 150–52
- Federal insecticide, Fungicide and Rodenticide Act, 177–78, 269n140
- Federalist Society, 21–22
- Federal Power Commission, 88
- Federal Reserve, 20, 34
- Fein, Rashi, 187, 270n38
- feminism, 123–24
- Ferris, Charles, 150–51
- Fisher, Irving, 243n30
- Fleck, Ludwik, 5, 241n15
- Fleishman, Joel, 64
- Ford, Gerald, 143–46, 164–67, 179, 195
- Ford Foundation, 91, 120
- Fortune* magazine, 78

- Foundations of Economic Analysis* (Samuelson), 36
- Fourcade, Marion, 24
- Fox, Peter D., 123
- FPC (Federal Power Commission), 142
- Freeman, Orville, 61
- Free Market Study Project, 79
- Friday, William, 257n55
- Friedman, Milton, 80, 104, 144
- FTC (Federal Trade Commission), 11, 29–30, 74, 85–88, 94–97, 136–39, 147–51, 190–91, 206–12
- Fuchs, Victor, 120, 270n36
- Galbraith, John Kenneth, 144
- game theory, 218, 258n86
- GAO (General Accounting Office), 56, 58, 67–68, 205–6
- Gaskins, Darius, 147–48
- Gay, Edwin, 27–28
- General Theory of Employment, Interest, and Money* (Keynes), 31–32
- Ginsburg, Douglas, 209
- Glass-Steagall Act, 2
- Glenmede Trust, 95
- Glennan, Thomas K., 125
- Goldwater, Barry, 56
- Google, 21
- Gordon, Kermit, 55, 89–91, 144
- Gorham, William, 59–60, 102, 106–8, 111, 113–14, 118, 183, 203
- Gorham Report, 120, 123
- Gorsuch, Anne, 213–15
- Gougherty, Matt, 5
- government, 9; centralized authority and, 102–10; decision-making protocols of, 6–7, 11–12, 15–18, 35–38, 41–44, 56–58, 81–84, 110–16, 131–32, 138–39, 178–79, 193–94, 196–98, 222; shrinking of, as goal, 12–13, 15–18, 92–95, 132, 153, 161–62, 180–81, 189, 195–96, 201–6; technocratic improvement goals and, 3–4, 11, 19–22, 51, 56, 99, 123–32, 142–43, 166–68, 179–82, 216–23; well-functioning markets and, 6, 9–11, 38, 71, 75–81, 88–97, 129–32, 141–53, 206–11, 221–22. *See also* antitrust policy; economic style of reasoning; markets
- Government Operations and Research Office (CWPS), 165
- grassroots organizing, 21–23
- Gray, C. Boyden, 212
- Great Depression, 32, 130
- Great Recession, 1–3, 219
- Great Society programs, 12, 34, 55–56, 98–110, 116–28, 157, 199, 220, 223
- greenhouse gas emissions, 10
- Green New Deal, 22
- Greenspan, Alan, 69
- Grosse, Robert, 106
- growth (as macroeconomic issue), 33–34
- Gustman, Alan, 61
- Hacking, Ian, 5, 245n86
- Hahn, John, 170
- Hale, Robert, 82
- Hallett, Tim, 5
- Halperin, Samuel, 111
- Hamermesh, Daniel, 61
- Hamilton, William, 82
- Hansen, Alvin, 32
- Harfst, David, 157
- Hart, Philip, 188–89
- Hart-Scott-Rodino Antitrust Improvement Act, 137, 190–91
- Harvard Business School, 62–63
- Harvard Law School, 83–84
- Harvard School (of I/O economists), 11, 73–84, 89–97, 131–35, 139–43, 153, 188–90. *See also specific people*
- Harvard University, 27–28, 41, 64–65, 75–79, 82, 91
- Havighurst, Clark, 185
- Hawkins, David, 170–71, 175
- Hay, George, 87, 137
- Hayek, Friedrich, 80
- healthcare policy, 1–2, 10–17, 119–24, 130, 151–52, 182–87, 197, 199, 205–6, 211–19. *See also* ACA (Affordable Care Act); HMOs (health maintenance organizations); Medicaid; Medicare (program); social insurance
- Health Maintenance Act, 122
- Health Research Group, 192
- Health Security bill (Kennedy), 123–24, 182–84, 218
- Heller, Walter, 34, 69, 144
- HEW (Department of Health, Education, and Welfare), 16, 59–69, 101–15, 118–25, 151, 183–84, 186, 197–98
- Hewlett Foundation, 22
- HHS (Department of Health and Human Services), 203–4
- HIE (Health Insurance Experiment), 115, 121–24
- higher education, 17, 107–10, 257n55
- Higher Education Act, 55–56, 98–100, 107–8, 257n55

324 INDEX

- Higher Education Act Reauthorization (1972), 108  
Hirschman, Albert, 49  
historicism, 25–27  
Hitch, Charles, 43, 47, 49–50, 52–54, 59, 103, 265n32  
Hjort, Howard, 59, 61  
HMOs (health maintenance organizations), 122, 185  
Hoberg, George, 159  
Hodgson, Geoffrey, 30  
Hoover, Herbert, 28, 51  
Hopkins, Thomas, 212  
Housing Acts (1965 and 1968), 100–101  
housing policy, 11, 17, 124–26, 198  
Houthakker, Hendrik, 143  
Hovenkamp, Herbert, 27  
HUD (Department of Housing and Urban Development), 59, 109, 113–15, 124–25, 131, 203  
Hughes, Phillip “Sam,” 69, 250n183  
human capital theory, 100, 107–8, 116–26. *See also* Medicare (program)  
Huntington, Samuel, 89  
  
ICC (Interstate Commerce Commission), 74, 78, 88, 131–32, 141–42, 147–49, 166, 273n36  
incentives, 2, 4–5, 99–101, 122, 128–29, 146, 155, 167–80, 183–86, 196, 218–19, 226. *See also* administrative rules; deregulation; markets  
income inequality, 232  
*Industrial Organization* (Bain), 251n11  
Industrial Relations Commission, 28  
Industrial Reorganization Act, 188–89  
inflation, 32, 34, 144, 146, 165, 184, 200  
institutional aid (to colleges and universities), 107–10, 257n55  
institutional economics, 25–36, 85–86  
Interstate Commerce Act, 142–43  
I/O (industrial organization) economists, 4, 11–12, 71–97, 129–35, 139–45, 155, 165–66, 189–90. *See also* Chicago school (of I/O economists); Harvard school (of I/O economists); *specific people*  
IRP (Institute for Research on Poverty), 110, 112  
“Is Regulation Necessary?” (Levine), 147  
ITT (International Telephone and Telegraph), 137  
  
Jackson, Henry, 160  
Jaffe, Louis, 89  
Job Corps, 100  
  
Johnson, George, 61  
Johnson, Lyndon B., 11–16, 34, 43–44, 54–67, 86–110, 113–16, 121, 127, 136, 143, 157. *See also* Great Society programs; War on Poverty  
Jorling, Tom, 196  
*Journal of Law and Economics*, 80, 83  
  
Kahn, Alfred, 147–48, 171, 194  
Kahn, Herman, 44  
Kaldor-Hicks efficiencies, 15, 38  
Kauper, Thomas, 86–87, 94, 137  
Kaysen, Carl, 49, 77–78, 86, 89–90, 134, 189  
Kennedy, Edward (Ted), 121–24, 138, 144–45, 182–84, 186–87, 191, 218, 271n66  
Kennedy, John F., 11, 25, 33–34, 43, 51–52, 86, 89–90, 100, 102, 117–18, 143  
Kennedy, Robert, 111  
Kerr-Mills Act, 119  
Kershaw, Joseph, 50, 53, 59, 105  
Keynesianism, 19, 25, 30–35, 40, 222  
Klein, Burton, 49, 63–64  
Klein, Joel, 218  
Klein, Lawrence, 69  
Kleindienst, Richard, 137  
Kneese, Allen, 193–94  
Koopmans, Tjalling, 26, 36, 49  
Kosters, Marvin, 95  
Kuznets, Simon, 28, 32  
  
labor unions, 124, 127, 159, 192  
Laffer, Arthur, 272n3  
Landes, William, 83–84  
Lane, Rose Wilder, 32  
law and economics, 81–84, 86, 96, 133–41, 177–78, 206–11, 219–20, 223, 226–29, 252n46  
law schools, 27, 73–74, 80–84  
legal process school, 82  
legal realism, 81–82  
Legislative Research Service, 68  
Leontief, Wassily, 49  
Levin, Michael, 175  
Levine, Michael E., 147  
Levine, Robert, 102  
Liebeler, Wesley J., 94, 138, 185  
*Life* magazine, 44, 45  
Lilly Endowment, 95  
Litvack, Sanford, 139, 191  
Lowi, Theodore, 7, 158–59  
Lyday, James, 118–19  
  
MacAvoy, Paul, 144  
macroeconomics, 11, 19, 25–26, 31–35, 222  
management by objectives, 58

- Mann, H. Michael, 87  
Manne, Henry, 93, 210  
marginal thinking, 5, 35–38, 170, 218  
markets: allocative efficiency and, 11, 16, 38, 72–75, 78–79, 85–97, 131–49, 187–92, 206–11, 221, 225–26; cap-and-trade policies and, 2–3, 8–9, 14, 155–56, 171–76, 226, 275n16; competition and, 4, 119–24, 129–30, 132–39, 185, 206–11, 218; consumer welfare and, 10–11, 92, 129–30, 132–35; deregulation and, 88–95, 129–53, 161–68, 196–98, 206–15; health-care policy and, 119–24, 182–87, 218; school choice and, 125–26. *See also* anti-trust policy; environmental protections; externalities  
Markowitz, Harry, 49  
Marshall, Alfred, 35  
Mashaw, Jerry, 157  
Mason, Edward, 76–77, 79, 82, 89–90, 252n26  
Mathematica, 112, 114–15, 122, 203, 258n86  
maximum feasible participation, 100, 111  
McGarity, Thomas, 213  
McGee, John, 80  
McKean, Roland, 49–50, 52–53, 247n38  
McLaren, Richard, 86, 137, 253n75  
McNamara, Robert, 6, 11, 43, 51, 53–55, 57, 67, 201, 247n58  
MDRC (Manpower Demonstration Research Corporation), 115  
means-testing, 15, 99, 116–26, 230  
Meckling, William H., 49  
Medicaid, 98, 106–10, 116, 119–24, 151, 182, 184  
Medicare (program), 100, 106–10, 116–17, 119–24, 151, 182, 184, 227  
Medicare for All, 21, 224  
Meese, Edwin, 203  
Meltzer, Allan, 33  
mergers, 76–77, 133–34, 136–41, 191, 207. *See also* antitrust policy; corporate power; monopoly  
Meyer, John, 14, 78–79, 89, 91, 252n26  
microeconomics, 11–14, 19, 24–26, 37, 81–84, 191, 221–22  
Miller, James C., III, 95, 165–66, 209–10, 212, 215  
Mills, Wilbur, 120, 122  
MIT (Massachusetts Institute of Technology), 36, 42  
Mitchell, Wesley, 26–28  
monetarism, 19, 33, 201–2, 222  
monopoly, 75–81, 85–88, 132–33, 138–41, 188–92, 218, 225, 245n88  
Mont Pelerin Society, 13, 18, 80, 222  
Moore, Thomas, 144  
moral hazard, 121, 184, 192–93  
morality (as external to economic style), 7–8, 15–16, 39, 192–93, 221–22, 225  
Morgenstern, Oskar, 258n86  
Moskow, Michael H., 109  
Motor Carrier Act, 149  
Motor Vehicle Safety Act, 162  
Moulton, Harold, 29  
MPPs (masters of public policy degrees), 65  
Mudge, Stephanie, 19  
Muris, Timothy, 210  
Muskie, Edmund, 169, 171, 196  
NAAQS (National Ambient Air Quality Standards), 169–70, 172–73  
Nader, Ralph, 92, 142, 148, 156, 158, 187–88, 192, 197–98  
NASA, 58–59  
National Academy of Sciences, 125  
National Center for Health Services Research and Development, 120  
National Conference on Medical Costs, 120  
*National Journal*, 193  
National Science Foundation, 58–59  
*Nature*, 228  
Naval Postgraduate School, 62  
NBER (National Bureau of Economic Research), 27–29, 31–32, 120  
*NCAA v. Board of Regents of the University of Oklahoma*, 210  
Nelson, James R., 91  
Nelson, Richard, 49  
Nelson, Robert, 61–62  
neoclassical economics, 26–27, 29–32, 35–37, 40–41, 76, 82, 243n11, 243n30, 245n86  
neoliberalism, 13, 18–20, 221–22, 232  
NEPA (National Environmental Policy Act), 7, 154, 160–61, 164  
neutrality (economic reasoning’s claims to), 3–5, 15–18, 38–39, 57–58, 98–99, 175–76, 180–82, 191, 195–96, 206  
New America Foundation, 21  
New Brandeis movement, 231  
New Deal, 117, 124–25, 129–30, 152–53, 188, 223–24  
New Democrats, 217–19, 223–24  
New Economics, 34  
*New England Journal of Medicine*, 186  
Newhouse, Joseph, 185  
new institutionalists, 30  
New Jersey Income Maintenance Experiment, 112–14  
New York Public Service Commission, 147  
*New York Times*, 1, 123–24, 145, 182, 191

326 INDEX

- NHTSA (National Highway Traffic Safety Administration), 12, 154, 157, 162, 165–66, 168, 176–77, 274n72
- NIE (National Institute of Education), 125, 204
- NIH (National Institutes of Health), 114
- NIPCC (National Industrial Pollution Control Council), 162–63
- NIT (negative income tax), 17, 39–40, 104, 112, 117–19, 258n86
- Nixon, Richard, 7–12, 17, 66–68, 94, 105–9, 116–27, 137–48, 157–67, 179–83, 193–95, 204
- Nordhaus, William, 146, 194
- Novick, David, 52–54, 56, 247n51
- NSPS (New Source Performance Standards), 172–73, 177–78
- Nutter, G. Warren, 80
- Obama, Barack Hussein, 1–5, 10, 20–23, 200, 217, 219, 221, 231–32
- Ocasio-Cortez, Alexandria, 22
- occupational safety, 156. *See also* OSHA (Occupational Safety and Health Administration)
- Occupational Safety and Health Act, 158–59, 177, 192–93, 213
- Occupy Wall Street, 219
- O'Connor, Alice, 112–13
- OEO (Office of Economic Opportunity), 59–61, 101–19, 121–25, 131, 136, 202–3
- Office of Economic Analysis (CAB), 147
- Office of Education, 111
- Office of Planning and Management (EPA), 163, 168, 171, 174–75
- Office of Plans and Policy (FCC), 151
- Office of Plans and Programs (NHTSA), 176–77
- Office of Policy Planning and Evaluation (FTC), 94, 138
- Office of Research (HHS), 204
- Office of Systems Analysis (DOD), 53
- offsets. *See* cap-and-trade
- OIRA (Office of Information and Regulatory Affairs), 212–13, 215
- Okun, Arthur, 16, 245n67
- Oliver, Daniel, 210
- OMB (Office of Management and Budget), 65, 123, 164, 167, 212–13, 231–32
- O'Neal, Daniel, 148
- Open Markets Institute, 22
- optimization (within constraints), 35–37
- “Orange Light for the Competitive Model” (Aaron), 186
- OSHA (Occupational Safety and Health Administration), 12, 154, 157, 167–68, 177–78, 192–93, 214, 274n72
- OSS (Office of Strategic Services), 89
- OTA (Office of Technology Assessments), 68
- ozone standards, 169–71
- Patman, Wright, 188, 190
- Pauly, Mark, 121
- Paxson, Edwin, 47–48
- PD&R (Office of Policy Development and Research), 203–4
- Pearson, James B., 146
- Pechman, Joe, 69
- Peck, Merton “Joe,” 53, 78–79, 87, 89, 91, 96, 118, 131
- Penn Central Railroad, 143
- Pentagon Papers*, 51
- People's Policy Project, 22
- Pertschuk, Michael, 139, 185, 191, 209
- Pigou, A. C., 245n89
- policy planning offices, 58–70, 102–10, 121, 136–39, 147–53, 158–59, 170–79, 203. *See also specific agencies and offices*
- policy research organizations, 110–16, 219–20, 224, 226–29. *See also specific organizations*
- Politics, Markets, and America's Schools* (Chubb and Moe), 272n108
- pollution, 7–8, 15–16, 39, 154–55, 158–59, 162–63, 171–76, 192, 241n23
- Pollution, Prices, and Public Policy* (Kneese), 193–94
- populism, 187–92, 198–200, 219–20, 224–30
- A Positive Program for Laissez Faire* (Simons), 79
- Posner, Richard, 83–84, 93–95, 134, 137, 140, 189–90
- poverty, 98–105, 115–26, 197–98, 203–6
- PPBS (Planning-Programming-Budgeting System), 160–61; agencies' resistance to, 54, 57–58, 99, 108–9, 120, 219–20; BOB and, 54–58; Congressional oversight and, 67; cost-benefit analysis and, 53–54, 70–71; environmental policy and, 160–61; Great Society programs and, 100–110, 116–28; healthcare policy and, 120–24; organizational changes in response to, 58–62, 102–10; in professional schools, 62–66; RAND's development of, 11, 43–44. *See also* DOD (Department of Defense); efficiency; Johnson, Lyndon B.; program budgeting; RAND Corporation
- price theory, 79–81, 142–49

- Princeton University, 63  
“The Problem of Social Cost” (Coase), 83  
productive efficiency, 38  
professional schools, 6, 14, 40, 43–44, 63–64  
program budgeting, 52–54, 58–66, 70–71, 113  
*Program Budgeting* (Novick), 56  
program evaluation, 110–16  
Progressive Era, 25, 98–100  
public administration (academic discipline), 63–64  
public choice theory, 209–10  
*The Public Interest*, 118  
public policy (academic discipline), 58, 62–66, 70–71  
*The Public Use of Private Interest* (Schultze), 146, 186, 193–94
- Quade, Edward, 48  
Quality of Life Review, 163–66, 212  
Quirk, Martha, 146
- race, 102–11, 114–15, 119–20, 124–27, 228–29, 231–32  
Race to the Top, 20–21  
Railroad Revitalization and Regulatory Reform Act, 145, 148  
RAND Corporation, 11; BOB roles of, 54–59; deontological problems of, 39; DOD work for, 50–54, 59, 103, 201, 205, 223; economists in, 44–50, 204–5; healthcare policy and, 121–22; Kennedy administration and, 43, 51; policy planning offices and, 58–62; PPBS and, 43–44, 100–101, 160–61; public policy discipline and, 63–66; systems analysis and, 4, 11, 40–50; Urban Institute and, 113–16. *See also* Air Force; PPBS (Planning-Programming-Budgeting System); *specific people and policy offices*
- RARG (Regulatory Analysis Review Group), 167–68, 170–71, 176–77, 267n88, 267n99  
rational actor theory, 35–37, 226  
Reagan, Ronald, 17–18, 141, 186, 200, 202–17  
reasonableness (as criterion of acceptable policy solutions), 200, 217–19, 221  
Rees, Albert, 69, 112  
*Regulation* (journal), 95, 214–15  
regulatory capture, 7, 40, 89–92, 142–47, 154–58, 168–76, 179, 193, 197–98, 218–19  
Regulatory Impact Analysis, 212  
regulatory reform, 11–15, 17–18  
Reich, Robert, 139  
*Reiter v. Sonotone Corp.*, 140–41
- Republican Party: conservative values and, 4, 17–18, 124–25, 161–62; industrial organization economics and, 93–97; Reagan revolution and, 200–202; rightward shift of, 3; think tanks associated with, 94–95; transportation policy and, 142–49  
Resource Conservation Recovery Act, 193  
Revenue Act of 1964, 34  
RFF (Resources for the Future), 160, 265n32  
Richardson Foundation, 95  
Riefler, Winfield, 244n35  
rights, 4, 9, 39, 98–101, 116–28, 154–58, 168–82, 192–98, 217–22, 225  
Rivlin, Alice, 16, 59–60, 62, 66, 69, 102, 106–8, 115, 120, 123, 183  
Rivlin Report, 108  
Robbins, Lionel, 26  
Roberts, Marc, 159, 193  
Robinson, Joan, 251n6  
Robinson-Patman Act, 133, 188  
Robson, John, 145  
Rodgers, Daniel, 19  
Romney, Mitt, 2  
Roosevelt, Franklin D., 28, 126  
Roosevelt Institute, 22  
Ross, William B., 59  
Rowen, Henry, 55–56, 64, 102  
RPP&E (Office of Research, Plans, Programs, and Evaluation), 102–8, 110, 112, 117–19. *See also* OEO (Office of Economic Opportunity)  
RSS (Regulatory Reform Staff), 175  
Ruckelshaus, William, 163, 213
- Safe Drinking Water Act, 193  
safety regulations. *See* Occupational Safety and Health Act; OSHA (Occupational Safety and Health Administration)  
Samuelson, Paul, 32–33, 36–37, 49, 69, 104, 245n67  
Sanders, Bernie, 22  
Scalia, Antonin, 95, 214–15  
Schelling, Thomas, 49  
Scherer, Frederic M., 87, 96  
Schick, Allen, 63  
Schmid, Allan, 162  
Schorr, Alvin, 118  
Schultz, Theodore, 49  
Schultze, Charles, 15, 55–56, 67, 90, 102–3, 113, 146, 166–68, 170–73, 186, 193–95  
Schuman, Mary, 146  
Schwartz, Louis, 191  
SCP (structure-conduct-performance) framework, 76–77, 80, 134–35

328 INDEX

- Second Bill of Rights (Roosevelt), 126  
Section 8 program, 124–25. *See also* housing policy; vouchers (for housing)  
SeEVERS, Gary, 143  
Senate Commerce Committee, 146  
Senate Environment Subcommittee, 171  
Senate Judiciary Committee, 143–44, 191  
Senate Subcommittee on Security and International Operations, 67  
Shachtman, David, 123  
Shenefield, John, 138–39, 191  
Sherman Antitrust Act, 76, 132–33, 141, 190, 210  
Shriver, Sargent, 102, 104–5  
Shultz, George, 61, 109  
*Silent Spring* (Carson), 156  
SIME/DIME (Seattle/Denver Income Maintenance Experiment), 114  
Simon, Herbert, 49  
Simons, Henry, 79  
Sloan Foundation, 95  
small business, 74, 132–33, 135, 139–41, 187–88, 191  
Snow, John, 145, 166, 176  
Snyder, Gene, 146  
social experiments, 110–16  
social insurance, 98–100, 116–24, 126–28, 182, 184, 187, 196–98, 218  
Social Security Program, 117–19, 187  
Solow, Robert, 49, 69, 245n67  
SRI (Stanford Research Institute), 115  
Staats, Elmer B., 67–68  
stability (rather than efficiency), 142–53, 165–66  
Stafford, Frank, 61  
Staggers Rail Act, 149  
Standard Oil, 80, 132, 152  
Stanford Law School, 83  
Stanford University, 63, 84  
Stein, Herbert, 69, 144  
Stenason, John, 78–79  
Stigler, George, 80, 92, 94–95, 134  
Stockman, David, 213  
Strategic Air Bases Study, 48–49, 55, 65  
Strategic Bombing Study, 47  
student loans, 107–8, 230–32  
styles of reasoning, 5, 10–11, 19–20, 245n86.  
*See also* economic style of reasoning  
Summers, Robert, 49  
supply-side economics, 19  
Support Work program, 115  
Supreme Court, 14, 16, 133, 139–41, 185, 187–88, 190, 193, 206–7, 210, 221, 223  
Sviridoff, Mitchell, 259n110  
systems analysis, 11; Congressional offices and, 66–70; cost-benefit analysis and, 11–12, 48–50; decision-making and, 42–44, 46, 56–58; DOD’s uses for, 50–54; educational outputs and, 111–12; Great Society programs and, 102–10; policy planning offices and, 58–62, 102–10; policy research organizations and, 110–16; RAND’s development of, 4, 11, 44–50; social regulation and, 155. *See also* efficiency; PPBS (Planning-Programming-Budgeting System); RAND Corporation  
Systems Analysis Group (Army), 162, 164  
Task Force on Antitrust Policy, 188  
Task Force on Regulatory Relief, 214–15  
tax cuts, 34, 201–2  
taxpayer rights, 126–27  
technocratic values, 3–4, 19–22, 51, 56, 99, 123–32, 142–43, 166–68, 179–82, 216–23. *See also* economic style of reasoning; efficiency  
technology forcing, 157–58, 176–78, 219  
telecommunications. *See* communications policy; *specific cases*  
Teles, Steven, 94  
TEMPO (General Electric), 111–12  
*Tennessee Valley Authority v. Hill*, 193  
textbooks (of economics), 32, 36–37, 104  
Thatcher, Margaret, 221–22  
“Theory of Economic Regulation” (Stigler), 92  
*The Theory of Monopolistic Competition* (Chamberlin), 76  
think tanks. *See* policy research organizations; *specific institutions*  
Title I (of ESEA), 66, 111–13  
Tobin, James, 32, 69, 118, 245n67  
Tolchin, Susan, 195  
Tollison, Robert, 209–10  
Toxic Substances Control Act, 269n140  
Tozzi, Jim, 164, 212  
transportation policy, 11–12, 88–92, 96, 130–32, 141–49, 197–98, 206, 225  
Treasury-Fed Accord (1951), 33  
Truman, Harry S., 33  
Trump, Donald, 23, 219  
Turner, Donald F., 77–78, 81, 83, 86–88, 131, 134–37, 189–90, 207–9  
UAW (United Auto Workers), 121  
UCLA, 80, 94, 138  
“underclass” research, 204–6  
unemployment, 32–33

- United States v. Philadelphia National Bank*, 134, 139
- universalism, 4, 15, 17, 39, 98–101, 116–28, 154–56, 176–78, 181–82, 196–98
- University of California-Berkeley, 64
- University of Chicago, 63, 79–81
- University of Maryland, 62
- University of Michigan, 64
- University of Minnesota, 64
- University of Rochester, 80, 93
- University of Virginia, 80, 83, 95
- University of Wisconsin, 27, 30, 63, 110, 112
- Unsafe at Any Speed* (Nader), 156
- Urban Institute, 99, 102, 113–16, 203–5, 224
- USDA (Department of Agriculture), 29, 59–60
- U.S. Geological Survey, 57
- U.S. Permanent Tariff Commission, 28
- U.S. Steel, 163
- Veblen, Thorstein, 26, 29
- Veneman, John, 118
- Viner, Jacob, 243n30
- VISTA (Volunteers in Service to America), 100
- voice. *See* democratic participation
- vouchers (for housing), 17, 124–28
- Wall Street Journal*, 136
- War on Poverty, 12, 34, 39–40, 56, 59, 98–100, 102–16, 119–24, 127, 203
- Warren, Elizabeth, 22
- Washington Post*, 137
- Water and Air Quality Acts, 158
- Watergate, 122–23, 143, 183, 223
- water policy, 161–62
- water resources, 50–51
- Watts revolt, 103–4
- Waxman-Markey Bill, 2
- Weaver, Robert C., 109
- Weaver, Suzanne, 137
- Weidenbaum, Murray, 95
- Weisbrod, Burton, 185
- welfare policy, 11, 67, 115, 118–19, 123–24, 183–84, 197–98, 202–6, 217–19
- “Whip Inflation Now” (Ford), 144
- White, Byron, 140
- Wholey, Joseph, 115
- Wildavsky, Aaron, 57
- Wilder, Laura Ingalls, 32
- Williams, John, 46, 202, 247n58
- Williamson, Oliver, 86–87
- Wohlstetter, Albert, 45
- work (moral value of), 17
- World War I, 25–27
- World War II, 32, 35–36, 75, 89, 152–53
- Yale Law School, 80–81, 83–84
- Yale University, 84, 91
- Yonay, Yuval, 30
- zero-based budgeting, 58
- Zwicky, Charles, 55, 78–79, 90–91, 97