Box 7-4: Former CEA Chairman Joseph Stiglitz (1995 – 1997)

My four years at the Council (two as a member and two as chairman) were perhaps the most memorable in my life. There were many battles—some which we won, some which we lost, some in which we achieved a temporary victory, and some which we lost in the short run only to see our positions vindicated with time. We came into government at an exciting time. The fall of the Iron Curtain had redefined the economic agenda. Our challenge was to find the right balance between the market and the state. The Council saw its role as helping to clarify the principles, and then applying these principles to the major issues of the day.

The Council of Economic Advisers had an important *positive* agenda, as we pushed to reshape trade, welfare, and environmental policies. To name one example, we successfully pushed for inflation indexed bonds, arguing that they could provide retirees with insurance against inflation—which they could not obtain in other ways—and that the risk premium that the market would likely pay for these bonds would generate revenues, important then as now in the context of budgetary constraints. Some opposed inflation indexed bonds, ostensibly because there would be little demand for them but perhaps grounded in the fact that the low turnover on such bonds meant they would generate few fees for Wall Street. Our view that there would be demand was vindicated and Treasury Inflation Protected Securities (TIPS) have proven to be a durable, useful, and informative part of the financial landscape.

Some of the most intense battles we fought now seem dated, and that may have been partly because of our success. Today, there is a broad consensus against "corporate welfare"—and especially tax expenditures that both distort the economy and increase inequality, even if they have shown enormous resilience. At the time, the topic was politically sensitive, but we drew up a list of them for the President, and that list has only gotten longer with time.

But we also did a lot to stop bad ideas and in collaboration with many allies across government, we succeeded in many arenas. We forged an alliance with the Antitrust Division of the Department of Justice to block a proposal to sustain the price of aluminum through the creation of a global aluminum cartel. We helped overcome legislative attempts to change the mandate of the Federal Reserve to focus only on inflation and not on unemployment, and helped defeat a constitutional amendment to require a balanced budget.

One temporary victory contains important lessons for CEA's commitment to understanding incentives. For years, we succeeded in blocking the privatization of the United States Enrichment Corporation

(USEC). USEC was responsible for producing and marketing enriched uranium, the key ingredient in nuclear power plants and in atomic bombs. CEA argued that private incentives to create markets for USEC's product conflicted with national and global interests in nonproliferation. Even worse, USEC was entrusted with bringing into the United States the enriched uranium from deactivated Russian warheads. We worried that USEC's profit-making incentives would induce them to do what they could to avoid bringing the uranium into the United States. CEA's concerns proved justified, as we uncovered that USEC had refused an offer to buy substantial amounts of uranium from Russia. This discovery halted the privatization, albeit only temporarily. But USEC's continued travails—leading even to proposals for renationalization—vindicated CEA's position.

The Council was also engaged in other international issues. We opposed the policy of Chinese containment that was pursued in the earliest days of the Clinton Administration, and when the administration changed course toward re-engagement, we became active participants in that process. Our expertise in the transition from Communism to a market economy, especially in Russia, gave us a seat at the table in discussions over policies in that part of the world.

The Council was actively engaged in trade policy, not just pushing back against protectionist measures but defining the *principles* that should guide market access initiatives. We questioned unfettered capital flows across borders, a view that has become "officially" vindicated by the IMF's endorsement of it.

As I think back over the years at the Council, one of the things that is striking is how many of the issues we focused on then have since risen to the top of the agenda. One was climate change. The Council was actively engaged in thinking about economic strategies that would reduce our emissions and those of the rest of the world. I served on the Intergovernmental Panel on Climate Change (which shared the 2007 Nobel Peace Prize with former Vice President Al Gore).

Another was inequality. We debated the causes and what could be done about it, and included a full chapter on the topic in the 1997 *Economic Report of the President*. Our analysis highlighted how reducing capital gains tax rates would enhance the country's already worsening inequality and further distort the economy.

As we engaged in these discussions and many more, CEA developed an enormously strong sense of comradery. It was these bonds as much as the ideas themselves that I think about when I reflect upon my four years at the Council.

There were many lessons that I draw from these and a multitude of other examples during my four years in the Council. The Council can stop bad ideas and initiate goods ones. Given its small—but highly dedicated—staff, it must be focused and use leverage. It is most effective when it works closely with other agencies, at multiple levels—interacting both with staff and top political appointees. This is even truer today, with an increasingly large number of departments having a chief economist. Not to sound too imperial, but economics and economic analysis enter into every aspect of public decision-making. Incentives matter. And this is true not just in the arena of domestic policy, but also foreign policy. Finally, most of the important issues are long run—whatever we do today, we will be dealing with them for years to come. The Council can play an important role in shaping, and elevating, the public debate.

As I wrote 20 years ago in celebration of the Council's 50th anniversary,[1] CEA is an important institutional innovation that has served the country well. Like other agencies in government, it has a "special interest," one that often gets short shrift in day-to-day political life: the national interest.

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[1] Joseph Stiglitz. 1997. "Looking Out for the National Interest: The Principles of the Council of Economic Advisers." *American Economic Review* 87 (2): 109-113.