

## WILL FREE TRADE WITH POLITICAL SCIENCE PUT NORMATIVE ECONOMISTS OUT OF WORK?

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Telling governments what to do is an ancient and important tradition in economics. Predicting what governments will do, i.e., endogenizing policy, is a newer activity, but one of growing prominence. The two activities appear incompatible: if what governments do is the result somehow of equilibrium behavior of self-interested actors, then advising governments is as senseless an activity as advising monopolists to lower prices or advising the San Andreas fault to be quiet. We show why and how advising can sometimes be a sensible activity, even when we hold sophisticated views about how governments operate.

WILL FREE trade with political science put normative economists out of work? Normative economics has traditionally given advice to a “puppet government” – a government “whose role is to echo the policy that the economist, presented with technocratic information on the economy and choosing an appropriate objective function, proposes as the optimal one from a set of policy instruments” (Bhagwati, 1990). Intellectual free trade with political science forces economists to realize that governments are not puppets – or, at least, not *their* puppets. Without puppets, is there any job for puppeteers?

Consider, for instance, Tabellini and Alesina's (1990) model of voting on the budget deficit. The current majority of voters is unsure whether it will be the majority in the future; perhaps another group with different tastes about the composition of government will be the majority then. This gives the current majority an incentive to finance its spending by issuing debt, because the burden of paying off the debt will fall on a government that might want to alter the composition of government spending from the one the current majority favors. Ex ante, before anyone knew what her tastes were, everyone would be better off with a balanced budget rule, but once the game has begun and people know who they are, the current majority always wants to run an excessive deficit.

What are the policy implications of the Tabellini–Alesina model? There aren't any. Tabellini and Alesina's goal is to explain public policies, not to rank them.

\*We have benefited from helpful comments by Charles Cameron, Andrew Caplin, Isaac Levi, and Aaron Tornell. The errors are our own responsibility.

Governments act the way they must; they are not waiting for Tabellini and Alesina to tell them what to do. One can engage in variational exercises, to be sure – asking, for instance, what the effect of a balanced budget amendment would be.<sup>1</sup> But variational exercises are not policy recommendations; they are counterfactual explorations like Fogel's (1964) reconstruction of American history without railroads.

Nothing is wrong, of course, with models that don't have policy implications. Neither the meteorite theory of dinosaur extinction, for instance, nor the big bang theory of cosmology has any policy implications that we can discern. No one would criticize them on this account. Like the Tabellini–Alesina model, they invite variational exercises – one can speculate, for instance, on whether dinosaurs would have developed opposable thumbs or differential calculus if the meteorite had missed. Such speculations, however, are not policy recommendations; indeed, they already have a name of their own – science fiction.

But especially for a teleological group like economists, models without policy implications may seem like trips without a destination or tennis games without a score. In Stigler's (1982) words, we like to preach. Many economists like to think of themselves as active participants in history, not as members of a contemplative order trying to understand a world they cannot influence, or even as science fiction writers. We write op-ed pieces and letters to the editor, sign advertisements, appear on television shows, testify before Congressional committees, and sometimes even try to take presidents and presidential candidates under our tutelage. The White House has a Council of Economic Advisers, but not a Council of Paleo-Archeological or Cosmological Advisers. For many economists, what makes economics more appealing than cosmology is the possibility of drawing policy implications and influencing the course of history.

Once models like Tabellini–Alesina, however, open up intellectual trade between economics and political science, these hopes seem to be empty and the actions they inspire futile. This is the “determinacy paradox” (Bhagwati, Brecher, and Srinivasan, 1984; Bhagwati, 1984, 1990).<sup>2</sup> The grand conditions of political–economic equilibrium (whatever they may be) have already determined what will happen. Telling the government to lower tariffs makes no more sense than telling a monopolist to lower prices or telling the dinosaurs to wear overcoats. Stigler (1976) and Basu (1992b) express similar thoughts.

<sup>1</sup> The uses of these variational exercises are discussed at greater length in Bhagwati, Brecher, and Srinivasan (1984) and Bhagwati (1989).

<sup>2</sup> The determinacy paradox is quite distinct from the Lucas (1976) critique of monetary policy. The Lucas critique is about why, if the government accepted certain kinds of advice from economists, that advice would turn out to be wrong. The determinacy paradox is about advice that would never be accepted anyway, since the government is going to do what it is going to do.

The problem is serious.<sup>3</sup> It is a philosophical difficulty that strikes at the heart of economists' ability to think they are accomplishing anything. Practical economists may think these concerns are academic musings unrelated to the important business of health care costs or deficit reduction in which they are busily engaged, but they should realize that the logic of determinacy and self-interest that they consistently apply when discussing other people, if applied to themselves and the people they are talking to, leads to the conclusion that they are wasting their time.

So the unemployment of normative economists that this kind of free trade threatens is not a happy prospect. In this paper we will argue that such unemployment is not inevitable, although most popular re-employment schemes are doomed to failure. Free trade opens up opportunities, but these cannot be exploited if people continue to think and act in the old ways. We are presenting a way to think about retraining normative economists. The chief purpose of this paper will be to outline the new ways of thinking and acting that are appropriate in a free trade regime. The new ways, it turns out, are not really new at all: they are the methods that Smith, Marx and Keynes, among others, used to great effect.

Before we can do that, we will first try to persuade readers that the determinacy paradox cannot be dismissed without careful consideration. We will do this by showing the inadequacy of the four popular responses to free trade with political science – protectionism, constitutionalism, multiple equilibria, and modesty. There is no easy way out.

In section 3 we begin tackling the difficult problem that the determinacy paradox presents. We start with a fundamental philosophical question: in what sense can we think of our own actions as being freely chosen? The question is fundamental because if all of our own thoughts and deeds are also determined by the conditions of grand political-economic equilibrium, we can have no more hope of influencing the course of events than a rock can. The answer we give to this question will show why giving advice can, under proper circumstances, be a sensible activity.

With this background, section 4 turns to the question of how to give advice. Advice stands a chance of being taken only when it is given by certain people to

<sup>3</sup>The problem is serious enough, in fact, to cause George Stigler to criticize Adam Smith. Stigler (1971) contrasts Smith's usual "ability to examine the most pompous and ceremonial of institutions and conduct with the jaundiced eye of a master economist – and the evident delight he took in such amusement", (pp. 143–44) with his attitude toward political behavior – "not dissimilar to that of a parent toward a child: the child was often mistaken and sometimes perverse, but normally it would improve in conduct if properly instructed." (p. 142) Stigler wonders, for instance, why Smith sets forth maxims and makes recommendations for good systems of taxation, when in fact taxes will be adopted by ministers and Parliaments acting for their own interests: "Why tell the French sovereign to abandon the *taille* and capitations and increase the *vingtiemes*, when only a revolution could dislodge the tax-favored classes? (p. 143) Of course, the genius of Adam Smith lay, not in analyzing the question as to how one could politically get to the (markets-based) institutional structure that would ensure a socially productive harnessing of private greed to public good, but in demonstrating that such a structure could in principle be devised in the first place.

certain other people at certain times; this section is about identifying those pairs and times. Section 5 concludes.

## 1. FALSE ESCAPES FROM THE DETERMINACY PARADOX

### 1.1 *Protectionism*

Can unemployment of economic advisers be avoided simply by restricting the flow of ideas from political science to economics? Such an outcome is neither feasible nor desirable.

It is not feasible because economists don't have a government that can coerce them not to trade; there is no way to punish deviations. The genie is out of the bottle: increasing numbers of economists are now in the game of building models where policies are endogenous and governments matter.

Nor is it desirable: governments really are not economists' puppets, and to pretend that they are merely invites derision and wastes intellectual resources. Such ostrich-like behavior can carry a heavy price. In the field of transportation, for instance, economists have known since at least 1959 that peak-hour toll schemes on the Hudson River crossings could make people in the New York metropolitan area a lot better off, and yet we have little idea of why these schemes have not been implemented or what steps could be taken that would get them implemented.

### 1.2 *Constitutionalism*

Buchanan and Tullock (1962), and writers who have followed in the tradition they established, have looked at constitutional design as the key arena in which normative economists can make a contribution. Once a constitution is in place, political-economic equilibrium is determined and there is no longer any room for advice. So what economists (and political scientists) need to do is devise a constitution that will lead to a good equilibrium. To this task Buchanan, Tullock, and their followers have devoted considerable wisdom, ingenuity, and effort.

This approach is in fact only a slight modification of the traditional practice of advising puppets; the only difference is that it takes constitutional conventions to be the puppets instead of everyday governments. It takes the actions of constitutional conventions to be exogenous, rather than the actions of governments.

There is, however, no reason to believe that constitutional conventions are autonomous, unmoved movers, any more than everyday governments are, or that they are any more receptive to economists' advice than the San Andreas fault is.<sup>4</sup> Anyone who has read the section of the New Jersey constitution dealing

<sup>4</sup>Occasionally, of course, constitution writers for, say, a newly independent society, may find themselves behind a truly thick veil of ignorance about what their roles in the new society will be. See, for instance, Bhagwati (1989) for a discussion of some of the possibilities. But the rarity and the artificiality of these exceptions shows that they can form no basis for normative economics.

with senior citizen bingo games (article IV, section VIII, paragraph 2.A) or the section of the Pennsylvania constitution dealing with police and fire collective bargaining (article III, section 31) would be hard pressed to think that these provisions emerged from any process qualitatively different from normal legislation.<sup>5</sup>

### 1.3 *Multiple equilibria*

Often, economists will give the impression that multiple equilibria can fortuitously provide the freedom that policy intervention requires. They will show that a certain model has multiple equilibria, and then (usually in the paper's conclusion) argue that this multiplicity gives the government or some other benevolent entity an opportunity to intervene and kick the system to one of the more desirable equilibria. A *deus ex machina* appears at the end of these stories, and the authors argue that its actions are plausible because nothing else in the story contradicts anything about it. Thus even though the equilibria might arise from solving an endogenous policy model, normatively the economist is still left with a function: she can rank order two or more equilibria, and resurrect the role of policy adviser.

Why aren't multiple equilibria a good way to escape the determinacy paradox? Because multiple equilibria are signs of incomplete modelling, not of actual freedom. In reality, only one thing happens. Multiple equilibria say something about the logical structure of a model; they say nothing about the reality that the model is trying to capture.

Consider a classical symmetrical battle-of-the-sexes game. Under any popular refinement, such a game has two pure-strategy equilibria – both players go to the ballet and both players go to the football game. By that statement is meant that both outcomes are fully compatible with everything stated in the model – the payoff functions, the temporal sequence, the rationality description, the information structure, and so on. (Battle-of-the-sexes also has a mixed strategy Nash equilibrium, but there exist solution concepts like evolutionary stability that exclude this equilibrium.) However, the couple will either go to the ballet or they will go to the football game; they will not go to both. Whatever it is that determines which they go to is something we have left out of the model – perhaps who is stronger or more persistent. All we know now is that the information the model uses is insufficient to answer the question, “Where will they go?” As a way of answering this question, the model is a failure.

But the fact that a particular model fails to answer this question doesn't mean that *no* model can answer this question or that the couple is waiting around for a benevolent economist to tell them what to do. Something left out of the model matters. This particular model's failure doesn't give us the freedom to impose

<sup>5</sup> Tabellini–Alesina (1990) make a similar point about balanced budget amendments.

any answer we want. Having a calculator that doesn't take square roots does not entitle you to assert that the square root of 7 is 5.

An example with a model not usually thought of as having multiple equilibria can make the point clearer. The theory of human capital is compatible with the president of General Motors wearing a red tie and also compatible with his wearing a blue tie; so there are (at least) two equilibria. We conclude from the existence of these multiple equilibria that the theory of human capital is not very useful if we are interested in tie color – but no one ever claimed it was. We do not conclude that the president's tie color is indeterminate or that we can tell him what color tie to wear. We conclude only that to answer tie color questions we need another model. The same conclusion should be reached whenever multiple equilibria are encountered.

#### 1.4 Modesty

A final argument is that the determinacy paradox is the product of a degree of hubris that only a few economists are afflicted with. Most of us do not live our lives concerned with the grand conditions of political-economic equilibrium; instead we build and test little models that are at best fables about how pieces of the world work. Thinking that our models are in danger of explaining everything is taking them too seriously.

The Tabellini–Alesina example we used to begin this paper, however, shows that modesty is no escape from the determinacy paradox. The model there was not grand or elaborate; it was just the sort of fable that is typical of economic theory as it is now practiced. Yet because it included a polity whose actions were endogenous no policy implications could be drawn. Modest models are just as susceptible to the determinacy paradox as grand ones are.

## 2. FREE TO ADVISE?

Thus the determinacy paradox is a real problem. Better models endogenize more actors and explain more actions, and so a demand that some actor be considered exogenous or some action be unexplained seems to be a demand for poorer models. Normative economics seems to be simply bad economics. “*Tout comprendre, c'est tout pardonner,*” and so how can the drive to understand the world be reconciled with the urge to improve it?

We think there's a way to make this reconciliation. Normative economics can make a difference in the world, or, at least, we ought to act as if it could.

To understand how, we need to begin at a very rudimentary level. Consider the decisions we make about how to conduct our personal lives – what we will eat for breakfast, what order we will eat it in, how we will travel to work, what papers we will write, what we will say in those papers, what order we will say it in.

For a social scientist who had constructed a very good model of the Columbia economics department, our actions would be completely endogenous. Something caused us to drink orange juice before milk, and such a social scientist could explain what that something was. Private life seems to be prey to the same sort of determinacy paradox that bedevils public life.<sup>6</sup>

And yet when we think about whether to drink orange juice or what article to write, we believe we are making real decisions – decisions that are neither foreordained nor ineffective. We pause and scratch our heads and wonder, “What should I do?”. We believe these decisions are effective in the sense that if we decide on a feasible action, then we will do it. Friedman wrote a book about decisions like these and called it *Free to Choose* (1980).

In what sense, then, are we really “free to choose” in private life? Answering this question will start us on the track to understanding normative economics.

In private life, we think to ourselves as free to choose because the hypothetical social scientist studying the Columbia economics department makes no difference to the actual conduct of our lives. Whether or not such a social scientist is around, we still have to think about what to eat for breakfast, what sentence to put next in this paper, what conclusion to come to in the next paper. Knowing that a book of our lives might exist makes no difference if we cannot read it and find out what we are going to do. Even if we could read the book of our lives we would have to decide whether to believe it – whence Newcomb’s problem (Nozick, 1969).<sup>7</sup> As Levi (1991, chapter 4) argues, we cannot predict

<sup>6</sup> Similarly, positive economics is just as susceptible to the determinacy paradox in this form as normative economics is. To the hypothetical social scientist studying us, the content of all the positive articles Columbia economists will write is also endogenous, and so positive economists are at best plagiarists. Endogeneity is no reason to elevate the positive over the normative. In this we differ from Stigler (1981).

<sup>7</sup> Newcomb’s problem is the following: A marvelous being has appeared on Earth and claimed to be able to predict what people will do. This claim has been put to the test a fabulously large number of times in all manner of circumstances and has always been confirmed. The predictor has even predicted your own actions faultlessly on an incredibly large number of occasions.

One day while you are out the predictor comes to your house and leaves two boxes and a note. One box has a clear plastic lid and in it you can see \$100. The other box is sealed and you can’t see what’s in it. The note says: “You may take either both boxes or the sealed box alone. If I predicted you would take both boxes, I put nothing in the sealed box. If I predicted you would take only the sealed box, I put \$1 million in it. Choose wisely.”

The argument for taking both boxes is the sure-thing principle: no matter what the predictor put in the sealed box, you’re always going to be \$100 better off if you take both boxes. The argument for taking one box is the principle of maximizing expected utility: if you take only one box you’re almost certain to end up with \$1 million while if you take both boxes you’re almost certain to end up with \$100. The philosophical interest in Newcomb’s problem comes from the conflict between the sure-thing principle and the expected utility principle.

In our context, Newcomb’s problem shows that relations with a being who can almost certainly read the book of your life are very far from trivial.

our own decisions before we make them; otherwise we would have already made them.<sup>8</sup> Thus worrying about what to eat for breakfast is compatible with having a scientific world view. We might as well act as if we were free to choose.

Giving and receiving advice, too, are compatible with a scientific world view. Since it makes sense to worry about what to eat for breakfast, it makes sense to learn about nutrition, cooking, and the prices in various supermarkets. Since it makes sense to worry what to write in a paper, it makes sense to read articles, analyze data, and talk to colleagues. Of course, to the social scientist studying the Columbia economics department, the nutritional and professional advice we get is just as endogenous as anything we ourselves do, and so is our reaction to it. Once again, however, this endogeneity does not concern either our adviser or us. Our adviser had to decide what advice to give without consulting the book of her life, and we didn't know what the advice would be until we got it.

In summary, we should treat ourselves as exogenous in everything we do, including giving and seeking advice. This conclusion applies to public as well as private life. We have met the degree of freedom, and it is us.

### 3. HOW TO GIVE ADVICE

The first rule of giving advice is you only give it when it's sought. It's rude to go around giving advice to people who haven't asked for it. And it's futile, too, because they won't take it. It's more than a rule of etiquette. It's a rule of practicality.

Miss Manners (Judith Martin),  
quoted in Rosenbaum (1992)

The traditional activity of normative economics, giving advice, can thus be rescued from the determinacy paradox. We can, for instance, agree with Stigler (1976) that a future historian of the world could both tell us what advice we will give before we give it, and whether it will be taken – but still, because we have no access to any such historian, think seriously and give advice. But then we may ask: how should economists give advice? to whom should they give it?

Let us begin by considering two polar cases. Telling the San Andreas fault to be quiet is silly. But if a friend you are eager to see and who is eager to see you calls and asks for directions, you should obviously comply. What distinguishes these two cases?

On one level the answer is simple: whether it is possible to construct a good model with the content of your advice as exogenous (as it should always be), and

<sup>8</sup> Levi goes on to argue that the only reason we could fail to predict our decisions is that we are not sure we will choose rationally. It follows that we should not be able to invoke rationality to predict the actions of other people either. In other words, Levi holds that the (correct, to Levi) belief in our inability to predict our own decisions is incompatible with the (incorrect, to Levi) belief in our ability to use rationality to predict what other people will do. Our tentative reconciliation of the two beliefs (if the two beliefs were not reconciled one would have to believe either that one could predict one's own decisions or the economics is impossible) is to reject Levi's explanation for why we are unable to predict our own decisions. Should it not be possible to be confident that we will act for the best, all things considered, before considering all things?



in this model being able to rank the outcomes that follow different kinds of advice. By a “good model” we mean just a model that meets the usual criteria we use for judging models – predictive ability, generality, simplicity, and so forth. By “rank” we mean a nontrivial ranking where some outcomes are better than others. Advising the San Andreas fault is not sensible because there aren’t any good geological models where that advice makes a difference. Giving directions to a friend is sensible because there is a good model where the friend follows the directions and the result is happy.

On the next level, the problem is more difficult: what sort of situations satisfy these criteria? Basu (1992a, 1992b) has investigated this game-theoretic question, and Srinivasan (1992a, 1992b) has properly pointed out that some of Basu’s results lack robustness, while others retain applicability. Then again, political scientists have studied the strategic aspects of advice-giving by the subjects of their work; gains from trade are thus easy to find. Some political science work in this area can be found in Krebhiel (1991), Cameron and Jung (1993), and Austen-Smith and Wright (1992).

Two conditions for making advising sensible typically emerge from this literature, both agreeing with common sense.

The first condition is asymmetric information. An adviser has to know something the advisee doesn’t know. Otherwise the adviser couldn’t give advice. Here we are using “know” in the colloquial sense that the implications of known propositions are not necessarily known (you can know the rules of arithmetic without knowing the 10,000-th digit of pi, even though it follows from the rules of arithmetic). This condition is fairly easy to meet.

The second condition is coincidence of interests. Players in zero-sum two-person games don’t exchange information. Coincidence doesn’t have to be exact (perhaps you want to see your friend but not until after the ball game is over), and, at any rate, one of the things about which an advisee is most likely to be unsure is an adviser’s true motivation. Still, people don’t take advice from their antagonists – Saddam Hussein is unlikely to revise the Iraqi agricultural price system just because some American economists tell him that doing so would be nice. As Basu points out, some asymmetry is involved here: you can get a friend to do what you want by telling him what you want, but you generally can’t get an enemy to do what you want by telling him what you don’t want. If American economists tell Saddam to raise the price of wheat, he won’t lower it; he’ll ignore the advice. Unless the would-be advisee is truly dim-witted, an adviser’s cleverness is not a good substitute for a true coincidence of interests.<sup>9</sup>

<sup>9</sup> Another way, of course, to bring about the desired concordance between the would-be adviser’s goals and those of the government is for the adviser to forsake whatever her own goals are and adopt the government’s as her own. In this case, the adviser becomes the puppet of the advisee. Klein (1994) provides an interesting account of how this “reverse-puppetry” might occur. Stigler (1976) argues that in fact whenever governments appear to be economists’ puppets, in fact it is the reverse that is occurring.

Here we see another reason why free trade with political science raises the specter of unemployment for normative economists. If the "government" that our would-be adviser wants to influence is something other than a puppet, its interests could well be substantially different from those of economists, and giving advice to the government will likely be a waste of time. Short of engaging in an extraordinarily elaborate swindle, an economist in a country ruled by a vicious autocrat whose aims she does not approve of should thus see no value-added in advising the government; an elitist economist in a democratic, populist country may find herself in a similar position. So there is no reason to think that any particular economist in any particular situation will always be able to give useful advice. (Thus, for instance, the Tabellini–Alesina paper is probably advice to no one.)

Even if a particular economist cannot advise a particular president or minister at a particular time, however, all is not lost. Sometimes the economist will find her goals are close to the goals of some government officials, or to the goals of some members of another branch of government like Congress. Then advice about what the government should do can be freely given and happily received. More often, though, things will not work out so well, as political science constantly reminds us. Sometimes there may be no one to listen to a particular economist's advice. At other times, especially in developed countries, other opportunities for advising can easily be found – but only if economists look to citizens rather than governments as advisees.

The advantages of advising citizens rather than governments are several. First is information asymmetry: citizens are more likely to differ from economists in their knowledge than government officials do, and so can gain more from hearing what economists have to say.

The second advantage is a closer coincidence of interests. Many economists judge a policy proposal not by what it does for them but by what it does for a lot of the people in society; criteria like Pareto optimality and distributional equity are basically "public-regarding." One doesn't win an argument for free trade in a university seminar by saying, "I like Japanese cameras," and to a large extent economists have internalized the public-regarding values that win arguments at university seminars. To this extent, then, there is some coincidence between what economists say is good for the public and what really is good for the public; and this coincidence forms the base for effective advising. If economists do in fact seek the goals they profess to be seeking when they devise policies, then those policies should serve the interests of the public better than they serve the interests of government officials.

Advice that a great deal of the public accepts can make a difference. Public opinion matters in many good models of politics – in the Western democracies at least. If most of the public believed that AIDS victims were immoral scum who deserved to suffer, government policies towards AIDS would be different from what they would be if most of the public believed AIDS victims were

unlucky losers of life's lottery. Economists who influence public opinion can change government policies.

Political scientists have been aware of this relationship for a long time. In this tradition, for instance, Zaller (1992) is a study of how policy elites completely changed their position on the Vietnam War between the early 1960s and the early 1970s. Elites' changed attitudes affected how the media reported on the war, and the media's changed reporting swung mass attitudes. Zaller concludes that changes in the way elites look at the world can have significant effects on public policies.

Advice to citizens is not necessarily advice to *all* citizens. Often (as with Zaller's elites early in the Vietnam War) only a portion of the public is in position to understand or accept what an economist is saying. More importantly, often only a portion of the public will find its interests aligned with those of the economist. Not all policies that economists advocate result in Pareto improvements.

The idea that the role of normative economists is to advise citizens rather than governments has had a distinguished history; it is not original with us. Marx and Keynes both saw their job as advising citizens, and it is difficult to think of more influential economists.

Marx clearly was not advising the governments of his day – the coincidence of interests are conspicuously missing. Instead he was advising the working class – a portion of the public. Keynes, too, was advising a portion of the public. Even though he sometimes worked for one government or another, he states in his famous conclusion to *The General Theory* (1936) that his goal is to influence future generations of citizens (and perhaps also madmen who hear voices in the air). We are advocating a return to the tradition of Marx and Keynes.

#### 4. CONCLUSION

Whether it is sensible to give advice – the question we addressed in this paper – is not the only question that free trade with political science poses for normative economics. When we look at the government as something other than a puppet oozing inchoate benevolence, whatever ethical significance could be ascribed to its objective function – the social welfare function – vanishes. For if, as Srinivasan puts it, “the level of a policy instrument is determined along with the price of chapatis in one grand politico-economic general equilibrium” (1992, p. 5), the objective function of policy makers can have no more ethical significance than the objective function of chapati makers. On what, then, can normative economists base their policy recommendations?

This is a large question that needs to be answered in further work. The implications of endogenous policy making are varied and deep. In this paper we

have examined only one set of implications, but in that set our conclusions are not surprising: as usual, free trade is better.

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