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# Ideological Differences in Economics: Why Is the Left-Right Divide Widening?

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[LINK TO ABSTRACT](#)

Years ago I would discuss economics with my father, who was a heavy smoker. He would tell me that a higher cigarette tax would not discourage people from smoking. People like him were addicted. Many years later, my mother mentioned that she had smoked cigarettes when she was very young. I asked her why she had stopped, and she told me, “When your father and I got married we decided that we could only afford to have one smoker in the family.” I often think of this anecdote when conversing with non-economists.

Much of economics is based on the notion that people respond to incentives in an at least somewhat predictable fashion. But I’ve always noticed that non-economists tend to be quite skeptical of such claims. If you don’t believe me, ask a non-economist what they think of the argument that seatbelts result in more pedestrian deaths, or that having car insurance causes people to drive more recklessly.

And it’s not just non-economists. I find many economists to be almost as skeptical of many of our models. It also seems to me that the skepticism is somewhat more pronounced on the left side of the political spectrum. I studied at the University of Chicago in the late 1970s and was exposed to many empirical studies that showed surprising impacts of incentives on human behavior. One example might be Isaac Ehrlich’s 1975 study of the death penalty, which estimated that each execution saved about eight lives by deterring murders. Years later I would discuss this sort of study with other economists who had not attended the University of Chicago. Many would roll their eyes; to them the claims seemed quite far-fetched.

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Later I will suggest that over the last two decades there has been a widening of the gap between the left and the right of the economics profession. But the gap has always been there, I think, with economists on the right being much more open to arguments that the Federal Deposit Insurance Corporation encourages banks to take excessive risks, that minimum-wage laws induce firms to hire fewer workers and adjust non-wage job attributes, that extended unemployment benefits discourage the unemployed from looking for jobs, and that high marginal income tax rates discourage work, savings, and investment. There is a sense in which right-wing economists could be characterized as economists who take economic incentives very seriously. An economist's economist.

Of course it is an empirical question as to how strongly people respond to incentives, so one might assume that these views should have nothing to do with one's political orientation. But the empirical questions are often difficult to settle—an epistemic problem. People tend to fall back on what seems plausible to them. Perhaps the epistemic difficulty and the tendency to resolve it with one's personal gut feeling explains the different voting patterns of economists on the left and the right, and why both groups are well to the right of other social scientists.

I'll use the term *right* to refer to economists with pro-free market, small government views, and *left* to refer to economists who favor more government regulation and/or greater income redistribution. In the U.S., economists on the left almost always have liberal or progressive views on non-economic issues, and they tend to vote Democratic. But those on the right don't necessarily hold conservative or Republican views on non-economic issues. Indeed the number of economists in America with relatively libertarian views is greatly disproportionate to the libertarian share of the overall population.

## Why would utilitarians ever disagree?

Many economists seem to have a roughly utilitarian value system, and even those that don't often rely on utilitarian arguments to try to convince their colleagues. Let's assume for the sake of argument that (as I believe) the 'Chicago' view of the world, i.e., that the effect of incentives on behavior is much stronger than common sense would suggest, is roughly correct. In that case, you might expect a split in the economics profession between those holding the Chicago view of the world and those holding what I will call a 'folksy' view—that people don't respond very strongly to economic incentives.

If most economists are indeed well-intentioned utilitarians who merely differ on empirical questions such as the impact of the minimum wage on the poor, then you'd expect economic views to evolve over time as new information tended to

support either the Chicago view or the folksy view. And, I submit, this is what happened.

In the 1930s, the folksy view of the Great Depression was that not only was capitalism somewhat unfair (due to inequality), but also that it didn't work very well in general. After the 1930s, governments dramatically expanded the role of the state in the economy in two very distinct ways. First, governments greatly increased the amount of regulation and in some cases even government ownership of business. Let's call these policies 'statist.' Second, governments sharply increased the amount of taxation, income redistribution, and social insurance. Let's call these policies 'egalitarian.'

If the policy changes sprang from utilitarian values mixed with hope and idealism, then you would expect each of the following to be true:

1. The change in government policies would be roughly mirrored by changes in the attitudes of academic economists.
2. If new information arrived that suggested these policies were counterproductive in a utilitarian sense, the reforms would then be reversed or mitigated.
3. Any reversal in government policies as a result of new information would be expected to occur more rapidly in countries with a high level of civic virtue, that is, where selfish, rent-seeking special interest groups have less control over the policymaking process.

Regarding the first claim, I cannot give data but I can give my impressions. In my own area of expertise, macroeconomics, the change in government policies was unquestionably paralleled by a similar change in the views of economists, especially between, say, 1929 and 1975. Even in the 1920s, macroeconomics was not as 'classical' as it is sometimes portrayed. But there's no doubt that between the 1930s and the 1960s the profession moved in a strongly Keynesian direction, as did policymaking in many countries. I suspect the same shifts occurred in many other areas of policymaking.

## **The liberalization wave**

In an earlier study (Sumner 2010), I looked at the policy regimes in the 32 developed countries<sup>2</sup> that in 2007 had per capita GDPs above \$20,000 per year. I used the Heritage Foundation Index of Economic Freedom to rank countries in terms of statism and egalitarianism. The Heritage index has 10 categories, of which

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2. Middle Eastern oil producers were excluded.

two, taxes and spending, are loosely related to income redistribution and social insurance. The other eight categories are loosely related to the level of statism, i.e., regulation and public ownership.

It turned out that countries often had very different rankings in statism and egalitarianism. For instance, in 2008 Denmark had, according to the eight statism categories, the freest markets in the world. But when looking at taxes and spending, Denmark also comes out as one of the most egalitarian countries. Danes might be puzzled by the topic of this symposium; I suspect that a scatterplot for Danish economists would look rather different from the one for American economists shown in the Prologue to this symposium (Klein 2015).

Then I looked at two measures of civic virtue: responses to a poll question, and a corruption ranking developed by Transparency International. The poll question asked the public to specify under what circumstance people were justified in “claiming government benefits to which they were not entitled.” I take an answer of “never” to reflect a higher level of civic virtue. Of course talk is cheap, which is why I also looked at the external rankings made by Transparency International. My two measures of civic virtue were highly correlated, despite completely unrelated methods.

Interestingly, Denmark had far and away the highest level of civic virtue—and Greece, the country with the most statist economic regime in the developed world, had the lowest level of civic virtue. Overall there was a very strong and negative correlation between civic virtue and statist economic policies in 2008. Of course, cross-sectional correlations are relatively easy to find and tricky to interpret. Both civic virtue and market-oriented policies might be caused by some third factor.

Beginning in the late 1970s, much of the world was swept by a liberalization wave. Over the next few decades, almost all countries sharply reduced their top marginal income tax rates, reduced trade barriers, reduced the regulation of prices and market access, and privatized state-owned enterprises. This wave reflected a growing disenchantment with statist policies during the stagflation of the 1970s. Obviously these changes played out differently in different locations, depending on local conditions and the extent to which statism had made inroads during the previous half-century. But the direction of change was the same almost everywhere between the late 1970s and 2008.

By 1979, economists had received new information, and they continued to receive new information. The new information was much more unfavorable to statist economic policies than to egalitarian policies of redistribution. Thus while policy regimes became less statist during the last part of the 20th century, the size of governments in terms of taxes and spending as a share of GDP changed relatively little. If the liberalization wave reflected idealistic utilitarian policymakers

reevaluating the virtue of a market economy, then you would expect changes to occur in precisely those areas where government regulation fell into the greatest disrepute. And that is what happened.

According to the preceding hypothesis, one would also expect the pace of economic reform to be faster in countries with a higher level of civic virtue, relative to places where rent-seeking special interest groups were able to block reforms that opened their industry to greater competition. To test this hypothesis I looked at the degree of statism in the same 32 developed countries back in 1980. The degree of statism was proxied by the gap between the economic freedom ranking (excluding size of government and taxes) and a perfect score. The pace of reform was the percentage reduction in statism between 1980 and 2008. My hypothesis was that liberalization reforms would occur faster in countries with a higher level of civic virtue.

When a regression equation was estimated, the results strongly supported the hypothesis. Countries with a high level of civic virtue such as Denmark and New Zealand abandoned statism at a relatively rapid rate, whereas countries such as Greece did relatively little in the way of market reforms. The correlation was strong and highly significant. When new information about the virtues of free markets arrived during the 1970s and 1980s, countries with a relatively virtuous policymaking apparatus move much more quickly to embrace those new findings. By the 1990s, there was talk of a “Washington consensus” that embraced free markets, combined with a reasonable amount of social insurance (Williamson 1990). Denmark’s regime is termed “flexicurity,” combining the flexibility of free markets with the security of social insurance (see Algan and Cahuc 2009).

## **What happened to the Washington consensus?**

This symposium is considering the question of why in the United States economists with small-government views on regulatory issues often have small-government views on seemingly unrelated questions such as income redistribution. Without denying that this correlation exists, I would argue that the division would have been less pronounced in the 1990s, and especially less pronounced in countries outside the United States and Britain. In the United States and Britain the liberalization wave was thought of as a sort of right-wing movement, associated with Ronald Reagan and Margaret Thatcher. But in fact, during the 1980s and 1990s many left-wing governments embraced these policies with equal vigor, and when compared to the U.S. arguably even more aggressively.

By the 1990s, the Cold War was over and the economics profession was far less polarized over the socialism/capitalism issue. Paul Krugman became famous

for his brilliant polemics against pundits who favored managed trade, often pundits associated with the Democratic Party (see Krugman 1996). In 1992, Bill Clinton promised to “end welfare as we know it.” Clinton supported and signed the North American Free Trade Agreement. The *New York Times* (1987) editorialized for the abolition of the minimum wage. Textbooks written by left-leaning economists taught students that unemployment insurance encouraged workers to live off the dole.

Today, Krugman is one of the world’s most famous left-wing pundits and rarely has anything good to say about free-market policies. Today’s *New York Times* would view anyone who favored abolishing the minimum wage as a heartless, hard-right libertarian. Indeed, even though the federal minimum wage was recently increased by roughly 40 percent during a period of extremely low inflation, the *Times* (2013) recently asserted that the U.S. economy could “easily support” another increase of more than 100 percent! Thomas Piketty (2014) wrote a popular book on wealth inequality that is notable for being almost entirely devoid of what I regard as the heart of economics: It denies the importance of supply-side effects in a wide range of areas. Economics as accounting.

In my own field of macroeconomics, the new Keynesian consensus of the 1990s has been almost completely abandoned. As recently as ten years ago, graduate students at the top schools were taught that monetary policy should be used to control inflation and stabilize the business cycle, and fiscal policy played almost no role in cutting-edge models of countercyclical policy. The emergent New Keynesian consensus in the 1990s synthesized certain monetarist ideas about monetary policy and Keynesian interest-rate targeting, and largely discarded fiscal stabilization policy (see DeLong 2000).

But from 2008 things have looked very different. In the wake of the global financial crisis and subsequent recession, much of the profession has drifted to the left, in both microeconomic policymaking and macroeconomic stabilization policy. Just as the folksy view of the Great Depression was that free-market capitalism is unstable and monetary policy is ineffective at the zero bound, the folksy view of the Great Recession was that an unregulated financial system is unstable and monetary policy is ineffective at the zero bound. My own view is that both crises were partly misdiagnosed, but I’m not surprised that folksy thinking induced a shift in opinion back to the left after the gains made by the right during the liberalization movement.

One difference between the Great Depression and the Great Recession is that this time around the right side of the profession did not lurch to the left; indeed in some respects they moved even further to the right. During the period before the Great Recession it was not uncommon to see right-wing economists advocate monetary stimulus, carbon taxes, and universal healthcare plans (such as

that advanced by Mitt Romney in Massachusetts, which was partly designed by the Heritage Foundation). Some still do, but overall the right side of the profession seems to have drifted a bit further to the right. Meanwhile, those on the left side have moved further left, producing a fairly large divide between the two sides.

Earlier I spoke of the epistemic difficulty in treating empirical questions of how responsive people are to changing incentives. Again, in the face of such difficulties people often go with gut-level judgments, based on what they feel they understand. In my own field of macroeconomics, it's much easier to explain to people why fiscal stimulus would 'work' than it is to explain monetary stimulus. With fiscal stimulus one can point to the folksy views that public works projects put people back to work or that tax cuts cause people to go shopping. In contrast, monetary policy works much more indirectly. Unlike with tax cuts, the Fed doesn't 'give' money to the public; it swaps base money for financial assets such as Treasury bonds. The increase in the supply of base money reduces its value, and since base money is the unit of account this raises the equilibrium price level. Then, because wages and prices are sticky in nominal terms, a higher equilibrium price level also tends to raise output. That's much harder to explain to the average person than jobs created in building high-speed rail.

I think, however, that epistemic difficulties and differences do not adequately account for the widening of the divide between economists. Let's consider two other factors: values and partisan/ideological tribalism. On the right, a significant minority of economists do not accept the utilitarian value system. They place much more emphasis on deontological values such as natural rights and just deserts.<sup>3</sup> Thus, even if income redistribution raises aggregate utility, it is unjustified if it involves taking money from people who have worked hard to create value and redistributing the money to others who have chosen not to work. Or, even if health and safety regulations such as seatbelt laws reduce injury, they may be unjustified because they limit personal freedom.

In my view, partisan/ideological tribalism also plays a role. One must be careful here, because tribalism is generally regarded as a pejorative. It is often difficult to disentangle views based on honest differences of empirical facts and relationships and those based on differences of values or ideology. However, it seems to me that just as the American public has since the 1990s become much more polarized in its voting patterns and news viewing habits, the economics profession has also become somewhat more polarized. Economists have always tended to believe empirical studies that they want to believe a bit more than those that they don't want to believe, but it seems that in the past ten years or so this tendency has grown even stronger.

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3. For an example of such values-based argumentation on the right, see Mankiw (2013).

Consider the debate over global warming. There are certainly economists on the right, including me, who believe global warming is real and who favor carbon taxes. But on the left, I think it's fair to say, a far larger share of economists embrace this view, evidencing a divide on the issue. The global warming example is especially notable because, whatever the fact of the matter is regarding global warming, it's completely unrelated to the earlier discussion of the responsiveness of people to economic incentives. Ideology must, at least subconsciously, be affecting the way economists evaluate scientific studies of climate. Perhaps economists on the right see themselves as a part of 'team free market,' and hence are more reluctant to accept empirical findings that point to the need for more government regulation or taxes.

I think that sort of wishful thinking may also occur on the left, at least to some extent. There was a famous study suggesting that minimum-wage laws may not have much effect on unemployment, but it's hard to see how this sort of study would dramatically alter anyone's views, including those of economists on the left, unless they were already predisposed to favor such a policy. And this sort of receptiveness to government-intervention arguments may be even more of a factor in the shift away from the consensus that unemployment insurance increases the unemployment rate. The previous consensus was based on pretty solid empirical research, including studies during periods when the unemployment rate is very high (see Mulligan 2010).

## Concluding remarks

The apparent tendency of economists to clump together into left and right blocks on a wide range of seemingly unrelated issues can be partly explained by differing views on the empirical matter of whether people are highly responsive to economic incentives. However, this purely epistemic explanation does not fully explain the tribal nature of American economics today. In other times and places the tribalism has been much less pronounced. Recall that it was, for the most part, moderate or left-wing governments that pushed liberalization policies in Australia, New Zealand, and much of Europe.

In Denmark, there might be no mystery to explain. Perhaps their scatterplot, whether of economists or others, would look more like a blob around what they have, which is relatively free markets and a relatively comprehensive system of social insurance. And as noted earlier, the tribalism we observe in America today was much less pronounced during the 1990s, the heyday of the "Washington consensus."



Here I have discussed my 2010 paper, which examined the ways in which changing worldviews explained the upticks in statism between the 1930s and 1960s and the liberalization wave the began in the late 1970s. That paper had a mono-causal explanation: The changing relative persuasiveness of folksy versus Chicago worldviews. The paper, written in mid-2008, however, already seems obsolete. Just over a decade ago, the Heritage Foundation was helping Mitt Romney create a universal healthcare regime in Massachusetts not unlike Obamacare. Paul Krugman was defending third-world sweatshops, and he derided the view that fiscal stimulus could end deflation in Japan (Krugman 1997; 1999). Now all of that seems like a long, long time ago. It seems to me that in the past ten years or so the economics profession in America has experienced an increase in tribalism and, on the right especially, a move away from utilitarian thinking.

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**Scott Sumner** has taught economics at Bentley University for the past 32 years. He earned a B.A. in economics at Wisconsin and a Ph.D. at Chicago. His research has been in the field of monetary economics, particularly the role of the gold standard in the Great Depression. In 2009 he had begun research on the relationship between cultural values and economic liberalization when he was pulled back into monetary economics by the crisis. He has a blog called *TheMoneyIllusion* ([link](#)). His email address is [ssummer@bentley.edu](mailto:ssummer@bentley.edu).

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