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LIBERAL TECHNOCRATS AND THE ECONOMIC IDEOLOGY OF EFFICIENCY

Laura Phillips-Sawyer

Elizabeth Popp Berman, *Thinking like an Economist: How Efficiency Replaced Equality in U.S. Public Policy*. Princeton University Press, 2022. x + 334 pp. Notes, bibliography, index. $37.00

Thinking like an Economist opens with a familiar lament: that liberal Democratic presidents have lost their progressive edge. Democratic policies, Elizabeth Popp Berman explains, no longer embody the core values and aspirations of New Deal and Great Society programs—"political claims grounded in values of rights, universalism, equity, and limiting corporate power" (p. 4). Those noneconomic values once motivated and sustained progressive policies in social policy, antitrust law, and social regulation of health, safety, and the environment. Today, however, Democratic policymaking embraces a traditionally Republican focus on "leveraging choice, competition, incentives, and the power of markets in the pursuit of outcomes that would be not just effective, but efficient" (p. 2). This embrace, she argues, has redefined what constitutes "good policy (p. 6)" and constricted the "very horizons of possibility (p. 3)" for contemporary American progressives.

Berman argues that "liberal technocrats"—professionally trained public servants who identified with a centrist Democratic Party—brought postwar neoclassical economics' obsession with efficiency into government. Beginning in the 1960s, systems analysts and industrial organization (IO) economists deployed an economic style of reasoning as a politically-neutral tool to "rationalize" bureaucratic decision-making processes and economic regulation. Elite economics departments initially developed the core tenets and basic presumptions of neoclassical economics, but this way of thinking through real-world problems quickly spread to law schools, public administration programs, and especially think-tanks. A feedback loop formed that reinforced the trend. Eventually, those liberal technocrats—not right-wing conservative or libertarian pundits—elevated efficiency (broadly defined) as the core principle of policy analysis. Through the ubiquity of cost-benefit analysis, efficiency displaced other values, such as universal access, democratic participation, or decentralized economic power. By the 1980s, where many stories of "neolib-

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eralism" and deregulation begin, Democratic policymaking had already been captured by economists' understanding of efficiency.

So, what does it mean to think like an economist? Do all economists think alike? Here, Berman sets her book apart by focusing on postwar neoclassical *micro*economics, rather than *macro*economics. Macroeconomics is concerned with national-level fiscal, monetary, and trade policies. Microeconomics, on the other hand, is about the decisions of individuals, households, and firms participating in market exchanges. In the late 1940s, the economist Paul Samuelson established a "newly consolidated microeconomic story" (p. 37). with his seminal undergraduate and graduate textbooks. For Samuelson, decision-making must always be made under some constraints, such as scarce resources, and the goal of the economist is to quantify and analyze how those choices affect an efficient allocation of resources. That analysis is based on a series of presumptions: that individuals are rational and profit-maximizing, that resources are scarce, and that market competition produces the most efficient allocation of those scarce resources. Using those presumptions, microeconomic models simplify and quantify costs and benefits to produce reliable estimates of price and cost curves and thus, efficiency gains or losses. The problem is that because those models are always and by design simplifications of a more complex reality, their continual study and repeated use can ingrain a restrictive approach to analyzing problems, an approach Berman characterizes as "unrepentantly utilitarian and consequentialist" (p. 39).

Berman organizes *Thinking like an Economist* around two groups of "liberal technocrats" who came to Washington armed with this new economic thinking and ready to rationalize government (not tear it down). First, systems analysts from the RAND Corporation reoriented the internal, administrative processes at the Department of Defense. They were concerned with improving "How to Make Government Decisions" (Chapter 3). They prescribed new systems to measure cost-effectiveness, and their interventions would ultimately reorient how social policies would be assessed and executed. Second, industrial organization economists reframed "How to Govern Markets" (Chapter 4). They focused mainly on antitrust law and policy, but their efforts spilled over into other areas of economic regulation, such as the deregulation of airline and trucking industries. Those two groups of academics-*cum*-policymakers, and the reforms they pursued, frame the remaining chapters of the book. Those chapters demonstrate how liberal technocrats operationalized and institutionalized this new economic way of thinking across anti-poverty social policies (Chapter 5), antitrust law and transportation deregulation (Chapter 6), and environmental and occupational regulations (Chapter 7). That evidence leads the reader to Berman's conclusion that this economic style of reasoning displaced other values on the Democratic left, such as moral, ecological, or equity concerns (Chapter 8). The die was already cast when Ronald Reagan

reached the presidency (Chapter 9). Reagan's real contribution was not creating cost-benefit analysis, but demonstrating how Republicans could wield it against Democrats and ignore it when it contradicted their core priorities.

This story begins in 1960 with Secretary of Defense Robert S. McNamara's "whiz kids" (p. 43)—a group of systems analysts from the RAND Corporation led by the economist Charles Hitch. RAND was established in 1948 by the U.S. Air Force to continue the military's wartime scientific research. Its systems analysts were originally mathematicians and engineers who were tightly connected to elite universities and interested in quantifying and rationalizing military decision-making processes to influence wartime bombing strategies or domestic defense systems. RAND economists pushed the engineers to consider multiple equilibria—or a range of possible conditions and outcomes—and to measure the cost-effectiveness of each. These economists, such as Hitch and Alain Enthoven, "envisioned a strong role for government but embraced the idea that hardheaded, rational decision-making could improve it" (p. 51). At the Department of Defense, they integrated a systems analysis approach to defense budgeting through what became known as the Planning-Programming-Budgeting System (PPBS). The idea was to start with the policy objective; then, compare the cost-effectiveness of various paths to reaching the objective; and, finally, select the most cost-effective option. Although PPBS met some resistance from military leaders, the program was seen as a success.

That success led President Lyndon Johnson to issue an executive order in August 1965 requiring most executive agencies to adopt PPBS. The program, he said, "will improve our ability to control our programs and our budgets rather than having them control us" (p. 56). Although ambiguous policy objectives and insufficient economic expertise stymied widespread implementation, policy planning offices flourished in a handful of agencies. The most successful offices were populated by RAND economists: the Department of Health, Education and Welfare (HEW) brought in William Gorham, and the new Office of Economic Opportunity (OEO) hired Joseph Kershaw. The new Department of Housing and Urban Development (HUD) also hired the economist William B. Ross. These economists played an integral role in training existing staff in economic analysis, and this rising demand for professional personnel capable of this kind of work revolutionized the academic field of public administration. Ultimately, this rationalization effort centralized budgetary control and posed a "counterweight to the more expansionary tendencies of the war on poverty" (p. 56).

And, thus, these technocratic rulemaking processes were born in tension with the progressive political goals of the 1960s Democratic policy agenda. President Johnson's Great Society programs had been "grounded in the logic of social insurance" (p. 99), offering universal coverage against the risks of old age, unemployment, and sickness or disability. And social policies accelerated

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federal spending to advance the substantive rights promised in the Economic Opportunity Act of 1964, Medicare and Medicaid, and the Elementary and Secondary Education Act and the Higher Education Act, both of 1965. However, these programs were put in place alongside policy planning offices staffed by economists who were concerned with efficiency, incentives, and choice.

The Economic Opportunity Act, for example, was "grounded in a sociological—and fairly radical—view of poverty that saw poor people as structurally excluded from political and economic participation" (p. 100). To support that act, the White House's Office of Economic Opportunity (OEO) created the Community Action Program (CAP) in order to enhance the political power of impoverished communities. It required "maximum feasible participation" of the people affected by the programs. Liberal technocrats, such as Alice Rivlin at HEW from 1966 to 1969, were skeptical of a decentralized approach to poverty alleviation and instead advocated for a centralized, systematic approach with measurable results. She and others drew on a purely economic understanding of poverty as "an individual problem defined by lack of income" (p. 105). This narrower understanding of the issue simultaneously dismissed the progressive diagnosis of structural inequity and political exclusion and reframed viable Democratic policy options. Rivlin prescribed a negative income tax (additional income provided to households under a certain income threshold) as a cost-effective and means-tested alternative. Johnson acquiesced and undermined the Community Action Program's commitment to enhancing political participation of poor people. He instead embraced Rivlin's approach. Rivlin went on to author *Systematic Thinking for Social Action* (1971), which argued that systems analysis and PPBS, in particular, had created a "quiet revolution in government."[1]

Yet, as Berman notes, more than an economic way of thinking proffered by liberal technocrats in government agencies and think-tanks influenced this policy shift. The CAP challenged existing local political power structures, especially those predicated on white supremacy, and provoked a backlash from mayors, such as Chicago's Richard Daley, who wanted to control the inflow of funds. The business community mobilized, and Congress ultimately amended the Economic Opportunity Act to diminish poor citizens' proportion of seats on Community Action Agencies. Berman notes but does not engage with many of these political forces that seem to coincide with the economists' ascent.

President Nixon found a natural ally with these liberal technocrats, who, like him, appeared willing to avoid the difficult issues of race and desegregation. As Berman notes, the Nixon administration did not dismantle the Great Society. Instead, Nixon reoriented it through this new economic logic, shifting away from New Deal commitments to strong public institutions and civil rights and toward means-tested, market-oriented public-private partnerships. Moderate Republicans associated with Nixon and liberal economists embraced

market-oriented vouchers, such as the HUD Section 8 housing voucher program introduced in 1974.

The ubiquity of the economic way of thinking, however, may obscure competing causal forces. It remains unclear, for example, how changes in the real economy catalyzed the adoption of the economic style of reasoning. As early as the Kennedy administration, "nagging inflation would begin to undermine the authority of the Keynesians" (p. 34), however, it remains ambiguous how persistent and rising inflation interacted with liberal technocratic efforts to rationalize or rein in federal spending and regulation, which had been closely associated with Keynesian growth strategies. Macroeconomic problems of inflation, unemployment, and global trade and finance constrained policy possibilities and helped push monetarists such as Alan Greenspan and Paul Volcker to the forefront of macroeconomic policymaking. But did microeconomics experience such a sea-change? What was the relationship between that revolution in macroeconomics and executive agencies' adoption of microeconomic models, which appear unchanging since Samuelson's texts?

Berman also explains how the pivotal changes in antitrust law and regulated industries in the 1970s were affected by this shift to economic thinking. Antitrust law, or competition policy, has since 1890 prohibited restraints of trade, monopolization, and attempts to monopolize. In 1914, Congress created the independent Federal Trade Commission (FTC) to intervene against unfair methods of competition and (in 1938) unfair or deceptive acts and practices, such as false advertising. Congress also empowered agencies to intervene to stop mergers that "may … lessen competition," and later strengthened that power in 1950. However, some industries—like railroads and airlines—tended toward either tight oligopoly or monopoly; they required high start-up costs and operated most efficiently at large scale. Those industries were subject to separate administrative agency supervision, which, in the case of the Civil Aeronautics Board, included price controls.

Through the 1950s and 1960s, industrial organization (IO) economists—Berman's second group of liberal technocrats—believed in the fragility of markets and the necessity of government interventions to correct market failures and prevent economic concentration. They did not subscribe to the neoclassical notion of ubiquitous perfect competition, but rather they feared the prevalence "monopolistic competition" and strived for what the institutional economist J. M. Clark referred to as "workable competition," whereby perfect competition was not attained but some level of sufficient market competition forced prices and profits downward. Building on those insights, the reigning economic paradigm of the 1950s through the mid-1970s, referred to as Structure-Conduct-Performance (SCP) and attributable mainly to Joe S. Bain or the Harvard School, held that high levels of market concentration begat anticompetitive conduct, such as higher prices or reduced output, and poor

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economic performance. Overcoming these pitfalls required that markets did not become concentrated.

Into the mid-1970s, Harvard IO provided the intellectual scaffolding for highly interventionist antitrust enforcement. They hoped to guard against the emergence of oligopoly and monopoly in local as well as national markets. For example, in *U.S. v. Philadelphia National Bank* (1963) the Supreme Court enshrined the "structural presumption" in merger review. In that case, the Court accepted the DOJ's argument that banking in the post-merger metro-Philadelphia area would become more concentrated and thus injure competitive processes that benefited smaller banks and customers. Two elements were key: the size of the "relevant market" for antitrust analysis and the threshold of market share that constituted unacceptable concentration. Making both small—the size of the market and the threshold of illegal concentration—rendered an antitrust violation more likely and ostensibly protected some smaller competitors and consumers within that relevant market. This was the high-water mark of antitrust enforcement.

Berman argues that Harvard's antitrust scholars actually helped lay the foundation for the deregulatory turn of the next decades because "they understood achieving allocative efficiency as the main purpose of market governance" (p. 73). In this way, the Harvard School shared common ground with their libertarian-leaning counterparts at the University of Chicago, led by well-known figures such as Ronald Coase, Aaron Director, George Stigler, Gary Becker, and Richard Posner. Berman deftly describes these competing schools of thought and correctly emphasizes their underappreciated points of synergy. By the early 1970s Harvard's Donald Turner and Phillip Areeda—authors of the leading antitrust law treatise—believed that antitrust enforcement had become overly interventionist and that antitrust law should prioritize economic efficiency over noneconomic goals. Additionally, federal agencies increasingly hired and promoted economists, such as in the Department of Justice's policy planning office, which allowed them to exert a durable influence on prosecutorial choices.

Harvard scholars helped craft the consumer welfare standard as it emerged in the late 1970s; it was not purely an invention of the libertarian-leaning Chicago school. (Herbert Hovenkamp, the keeper of the Turner-Areeda antitrust treatise, has referred to this as the "taming of Harvard." And antitrust scholar and former FTC commissioner William Kovacic has referred to this as a "double helix" of Harvard and Chicago.) In the broadest sense, the consumer welfare standard, rather than being a specific test or rule, is a guiding maxim of American antitrust law that prioritizes efficiency. The standard is effects-oriented, meaning that courts look for evidence of actual or likely allocative inefficiencies, such as rising prices or reduced output, resulting from a particular business arrangement. Antitrust casebooks teach that the consumer welfare

standard made two important changes. First, it tore down most "illegal per se" rules—rules that required courts to strike down business arrangements without asking about their market effects. Nearly everything—excluding "naked" price-fixing or bid-rigging—shifted to the "rule of reason," where defendants now had the opportunity to offer justifications for their business arrangements. Dueling economic experts became the new norm. Second, this new maxim instructed generalist judges to worry about incorrectly striking down activities that could actually have procompetitive effects, which would chill future competitive conduct as well. The result, as Berman lays it out, was that Democratic values like market stability or equity were jettisoned for market dynamism and low prices.

Yet, American antitrust law has always prioritized economic thinking and argumentation—for better or worse—and questions of efficiency have, in fact, plagued progressive antitrust advocates for more than a century. (Class interests, political power, and dual federalism also were inflected and perpetuated through the law.) Prior to World War II, courts used antitrust law as a blunt instrument against laborers, farmers, and independent proprietors who organized to bolster their bargaining power or stabilize markets. Antitrust law required courts to determine whether such actions constituted either illegal collusion or desirable cooperation. And the judiciary infamously targeted all three groups as cartels, relying on formalistic property and contract rights and neoclassical economics. The result was to further incentivize industry consolidation and vertical integration and to stymie alternative organizational structures.

By the 1920s, courts had rejected the "ruinous competition" defense and required such associations to show some procompetitive benefits, which they did with the help of Louis Brandeis and institutional economics. Brandeis frequently argued that independent proprietors could achieve the same efficiencies as their large-scale counterparts, leading the historian Thomas McCraw to dismiss Brandeis as misunderstanding economics. Brandeis made similar efficiency-oriented arguments in favor of labor unions and farmer cooperatives, though he preferred statutory exemptions from antitrust liability because he believed the courts were not the appropriate venue to determine the legality of such associational arrangements. But, as I wrote in *American Fair Trade* (2018), Brandeis used the conventional economic language of his time to support his legal arguments in favor of associational or regulated competition. In other words, the noneconomic goal to protect small business for political purposes, for example, was subsumed in the economic understanding of robust market competition with many players. Economic thinking about efficiency has deep roots in regulation, especially in antitrust law.

In the postwar era, the presumptions regarding how to achieve allocative efficiency changed, and collapsing these two schools of thought may obscure

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critical differences and points of contingency. What Harvard IO economics retained from their forebearers in institutional economics was their belief in the fragility of markets and the necessity of government supervision and policing. Whereas Harvard had "assumed government would play a substantial role in regulating markets" because it was integral to their style of economic thinking, this was not true of Chicago. Harvard's structuralism maintained a highly interventionist merger enforcement regime. In fact, as late as 1978, the Turner-Areeda treatise went so far as endorsing no-fault monopoly through equity proceedings, wherein the government could break up durable monopolies even if there was no illegal conduct. When Turner and Areeda advocated tightening the standards for plaintiffs to prove predatory pricing allegations, they did so presupposing that market power was being monitored and limited by other means. On the other hand, Chicago scholars embraced the presumption that the market was the superior mechanism to allocate society's resources, and they set out to prove it through academic publications and popular writing. (Robert Bork went so far as endorsing productive efficiency as the rationale for merger review. In other words, if merging firms attained greater efficiencies in production, then the merger should be approved even if those efficiency gains would not necessarily translate into lower prices or better quality for consumers.) The point is that it misses the mark to characterize Harvard and Chicago schools as starting from the same place or in search of the same ideals. Today, this point seems especially important as many progressive "Neo-Brandeisians" want to revive aspects of structuralism in antitrust analysis, and some scholars have advocated for a reconsideration of no-fault liability. Indeed, many progressives believe that economic analysis can help achieve progressive ends, which reinforce noneconomic values like universal access, nondiscrimination, and democratic accountability.

Collapsing these two schools of economic thought also neglects how external forces facilitated the substantial shift in antitrust law toward Chicago by the late 1970s. By the early 1970s, rising prices squeezed consumers and export-oriented manufacturers; global trade continued to open, and Nixon's withdrawal from the Bretton-Woods system coincided with the official opening of international capital flows. For antitrust analysis, markets no longer appeared local or regional, they were national or global. In regulated industries, bipartisan Congressional leaders pushed for railroad and airline deregulation in part to combat inflation. Maintaining market power appeared increasingly difficult alongside global competition and international funds flowing to facilitate market entrants. Barriers to entry no longer appeared as insurmountable as Harvard's structuralism had supposed; instead, Chicago law and economics, corporate activists, and public choice scholars posited that regulations created barriers, impeded competition, and protected incumbents. External forces played a critical role in understanding when and why antitrust enforcement changed so dramatically.

Yet Berman's sustained focus on liberal technocrats presents a compelling deviation from, or perhaps supplement to, the current historical literature's focus on neoliberalism. That literature—exemplified by Quinn Slobodian's *The Globalists* (2018) and Gary Gerstle's *The Rise and Fall of Neoliberalism* (2022)—focuses almost exclusively on libertarian economists and the conservative legal movement, and their impact on macroeconomic policies, such as monetarism, supply-side economics, and free trade. Yet, in both the literature on neoliberalism and Berman's novel intervention with liberal technocrats and microeconomics, the conclusion is the same: by rationalizing regulatory processes with cost-benefit or cost-effectiveness analysis, public servants and the public succumbed to a narrow way of thinking, which left little room for the noneconomic values, such as equality or universalism, that had defined the New Deal and the Great Society. And, they each conclude, today we are reckoning with the false promises and populist fallout of those choices.

Thinking like an Economist crafts a convincing narrative by synthesizing an impressive array of case studies, many of which have not been covered in this review. For example, Berman also extends her argument to: the deregulation of the airline industry via liberal Democrats Stephen Breyer, Senator Ted Kennedy, and President Jimmy Carter; the reorientation of environmental and occupational regulations toward cost-benefit analysis by Alfred Kahn and William Nordhaus; and the advancement of the "consumer-choice health plan" by Charles Schultze and Alain Enthoven. The thesis is repetitively asserted, which makes assigning standalone chapters or pairings manageable for undergraduates in sociology, history, and political science. Graduate seminars in history, sociology, public administration, and organizational studies will benefit from interrogating the book's argument, structure, and evidence, as will policy wonks and progressive activists. While readers of this journal will not be surprised that this economic way of thinking prioritizes certain values and, ultimately, offers "an inadequate theory of politics" (p. 230), Berman shows how it has become a bottleneck for Democratic progressive policies across multiple policy domains.

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1. Alice Rivlin, *Systematic Thinking for Social Action* (1971), 3.