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# Government Economists as ‘Global Economists’”

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# Government Economists as ‘Global Economists’”

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## *The Challenge of Globalization*

In today's world, the word "globalization" has become more of a punch line than a carefully used analytical term. Popular nomenclature seems to have hijacked the term and distorted its meaning and the interpretation of its consequences. While one can disagree on its meaning and consequences, the process itself has left an indelible and clearly discernible mark on the modern world system.<sup>1</sup> Fundamentally, globalization is the culmination of a process that has been going on for centuries: the emergence of a global network of human transactions and interactions. While the enlargement of this network was pervasive and consistent through history, the late 19<sup>th</sup> century marked the emergence of a true international economy. It was in this period where technology was joined with liberal economic policies among the leading industrial nations to create a transactional network that reflected a true global character. Humans, goods and investment traveled freely and in far greater quantity and speed than ever before. Statistics on trade, investment and immigration flows suggested a major spike in human transactions and interactions. For the first time, nations of the world were truly interpenetrated.<sup>2</sup> After the shocks of two wars interrupted this process, the post-WW II period saw the transition of an international network into a truly global network.

What differentiates the present global village from its predecessors is more a matter of degree than substance. First there is the greater speed and magnitude with which interpretation unfolds. While people, goods and money moved in the past, the technological developments of the post-war decades have increased the speed and abundance with which this can occur. The electronic highways have created a world where ownership of both money and goods can be transferred swiftly. Online banking, online shopping, and the investment technologies of the digital age have created an economic market in which transactions can clear instantaneously. While economic policies in the present global community of nations are far less liberal than they were in the late 19<sup>th</sup> century, the conduits for transactions and movements have all developed the capacity for more rapid and larger-scale transmissions. Not only do physical goods move faster,

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<sup>1</sup> Citing even a representative cross-section of works on globalization would be daunting. For a good overview of competing visions, interpretations, and evaluations of globalization, see especially Lechner and Boli, 2011. For representative pro and con analysis of globalization, see Wolf (2004-pro) and Stiglitz (2002-con) and Rodrick (1997-con).

<sup>2</sup> Good overviews, ripe with statistical findings, of the growth of an international economy in the late 19<sup>th</sup> century can be found in Williamson and O'Rourke (2001) and Cameron and Neal (2003).

but many virtual products exist and can be purchased in an instant. This capacity to transfer ownership in rapid fashion leaves both national economies and individual industries that much more vulnerable to international shocks. With respect to people, the speed and magnitude has created far greater immigration problems for nations because technologies in the global age have generated larger and more robust reception networks in target nations (i.e., absorbing immigrants, legal and illegal, has become easier in a global environment). Perhaps the problem of speed and abundance is most clearly seen in the development of financial markets into an environment many call casino capitalism. This describes a system in which great amounts of short-term investment flows can move rapidly in response to small changes in information. Many of the investment instruments themselves are becoming increasingly detached from the underlying sources of value (i.e., hedged), hence can exchange hands far more rapidly (e.g., commodities can be owned without taking possession of the actual commodities). The speed and abundance of capital flows has generated a high level of financial market integration, the extent of which has been manifest by the vulnerability of the system to shocks. The Asian flu of 2007, the recent banking meltdown in 2008 and the sovereign debt crisis are all clear testaments to the vulnerability of financial markets in a globalized economy. But the links and capacity for reverberation are so acute that even single individuals placing bets on investments are capable of harming some of the largest financial institutions in the world economy. There is a foreboding trail of just such rogue traders doing so in recent history: Joseph Jett at Kidder, Peabody in the 1980s; Nicholas Leeson at Baring in the 1990s; Jerome Kerviel at Societe General in 2008; and most recently Kweku Abodoli at UBS's London office in 2011 (Spero and Hart 2010, Strange 1998, Gapper 2011, and Gauthier-Villars and Forelle 2012).

And with this speed and magnitude of international shocks come other consequences that mark a difference in the characteristics shared by the pre-global period of interdependence and the globalized world we live in. In the present period, there is a greater deal of complexity to deal with, and with this complexity comes a greater degree of uncertainty and unpredictability in outcomes. Greater complexity is a simple function of the more integrated and tightly-coupled network of connectivity between nations in a global environment. There are far more connections in the interactions of nations, and these connections are so pervasive and complicated, that it is becoming much more difficult to predict the consequences of particular policies and actions. The seeds of the financial meltdowns described just above were quite visible to all, but even knowing that investment patterns were developing into more vulnerable conditions was insufficient to ascertain the course of events that followed. Few would have predicted the magnitude of the outcomes even with a clear vision of early developments. Hence, all these events left the world surprised and financial regulators exasperated. But the reverberations can come in a multitude of issue-areas. The Arab Spring and the Occupy Wall Street movement that followed are political testaments to the complexity and speed of the globalized world. Few people would have imagined that mass democratization movements could manifest themselves in long-standing autocracies with little or no democratic traditions. Here the shocks emanated from a very unexpected source, and the spreading effects unfolded with unimagined speed through the prevalent communication technologies of the day: I-phones and online social networks. The movement spilled over into the U.S. and Europe in the form mass protests against the perceived ills of capitalism. Just as in the cases of finance where shocks

reverberated to change the global economy, so do did political shocks proliferate with alarming speed to change the global political landscape.<sup>3</sup>

This new global environment confronts nations with their greatest challenges. The high degree of interconnectivity among actors leads to a managerial dilemma: managing complex environments where small shocks can produce large and unpredictable outcomes with lightning speed. Responding to shocks will be difficult because of the speed and unpredictability of reverberation effects, hence ex-post management will be most difficult. But these conditions will also limit ex-ante or pro-active solutions because of the difficulty of ascertaining the sources of small shocks. Moreover, because of the interconnectivity, the strength of spreading effects has largely eliminated the distinction between domestic and international issues.

### *Consequences for the Government Economist*

In such a globalized world, the job of the American government economist has changed significantly. For those government bureaus that deal directly with foreign events (Defense, State, Treasury, National Security Council, Commerce, Office of the U.S. Trade Representative, Homeland Security, Central Intelligence Agency), there is a far greater need to be tuned into ever smaller events, as the reverberation effects in a globalized world carry greater possibilities for turning seemingly minute outcomes into significant outcomes. But even greater perspicacity is required in tracing potential patterns within the possible reverberations that can take place. In a sense the international economist has to become more of a globalized economist: i.e., doing analyses in the context of the realization that the impact of international events is far more complicated and more difficult to model with precision. Hence, there is a greater need to analyze issues more deeply, consider more possible scenarios, and have a more extensive menu of effective solutions. In this case, it would behoove economists to prepare for even highly unlike chains of outcomes. This not only would increase the need for more economists, but would suggest a far different psychology among existing economists in their approach to analyzing the world at large (Interview, June 16, 2011).

Moreover, the advent of globalization has led government economists and policy makers to question whether there is a purely domestic issue anymore. Since the reverberations of events in a global system are so extensive, there is pervasive spillover both from domestic to international events, and from international to domestic. This was underscored long ago by Richard Cooper in his celebrated book *The Economics of Interdependence* (1968), but indeed these spillover effects are far more extensive and significant in the more globalized world of today. For example, there is no such thing as purely domestic monetary policy in open economies. Changes in interest rates or the use of other tools (e.g., open banking operations, alterations in securities portfolio) of the Federal Reserve generate international effects that

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<sup>3</sup> On complexity, see especially Jervis (1997).

feedback onto the very targets which domestic monetary policy were trying to effect. Sometimes these effects generate either neutralizing or even counter-productive consequences. And other times the effects desired may even be compounded by international responses to specific policies. The effect of raising interest rates to limit inflation could be neutralized by the inflow of foreign investment responding to higher returns in the U.S. Similarly, open market operations to ease credit by increasing the American money supply by buying bonds could lead to a counterproductive effect if such easing pushes foreign investment out of the U.S., thus decreasing the money supply. Hence, trying to manage domestic monetary targets in a globalized world could be frustrated or even enhanced by the international responses to the domestic policies. Dollarization is another manifestation of the internationalization of domestic monetary policy. The fact that a number of countries have adopted the U.S. dollar as their official currency, turns domestic decisions about the American money supply into an international issue, i.e., the growth in the American money supply affects the inflation rates of other nations (Cohen 2003).

The government budget and taxation have long been seen as fundamentally relating to domestic matters, but globalization has increasingly made them an international issue. The budget of course funds a great variety of international initiatives and programs (foreign aid, military operations, contributions to international financial institutions), but even spending on what are considered domestic programs (education, housing, Medicare, etc) is strongly conditioned by the events in the international system. Revenues, for example, will also reflect the tax base generated by returns to American foreign investment abroad; but on the spending side, shocks created by developments such as an influx of immigration could affect spending on schools, health and welfare. Since the budget comprises items that are in one way or another affected by international developments, it is in effect an international issue. And economists who analyze the budget can only effectively do so by considering all of the possible significant international shocks that may affect domestic fiscal decisions.

Similarly, with taxation, globalization has increased the opportunities for both individuals and corporations to avert taxation. Individuals enjoy a myriad of investment instruments in international financial markets through which they can limit their exposure to taxation. Corporations can diversify to an even greater extent internationally and can shift tax liabilities through an even greater variety of practices. One that especially manifests the opportunities created by globalization is the practice of transfer pricing. Transfer pricing allows corporations to manage prices for their products in different nations so as to shield profits from higher tax areas (appropriate transfer pricing). They can also transfer ownership to inventions and capital to subsidiaries so as to reduce compensation for those items, thus reducing tax burdens in intra-firm dealings. As globalization has increased intra-firm networks, there are so many more opportunities to limit taxation on corporate transactions. Hence, all tax policy is in effect an international issue. Greater venues for investment leave many possible responses on the part of individual and institutional tax payers to changes in American tax laws. Economists at both the Treasury and the Internal Revenue Service (IRS) must take such possibilities for international slippage into account in accurately modeling the effect of differing tax laws on revenues (Interviews, December 15, 2011 and December 19, 2011).

## *Rising to the Challenge: The Emergence of the Global Economist*

The growing challenge of globalization for economic analysis has not only altered the requirements for government economists, it has had a major impact on the science of economics. Up until the 1970s, much macro theory was still dealing with more restricted models of national economies. The “closed economy” assumptions that underlied these models served the same purpose that assumptions of “bodies in a vacuum” served for physicists: it made the analysis of economic processes that much easier to isolate and hence understand because the complicated impact of external forces were not factored into the analysis. While economists continued to study domestic economies void of external shocks, the growing interconnectedness across borders continued to make these economic models increasingly irrelevant. In the domestic economies of a global world, there were few processes that could be said to hold constant. So the 1970s and 1980’s saw a robust outburst of economic science that analyzed “open economies,” i.e., models where international shocks were endogenized. The study of macroeconomics has never looked back. As would be expected, the new generation of economists was very much shaped by the new curriculum in their graduate and undergraduate educations. The science of economics had discarded its analytical vacuum, and with that produced economists that thought in a more holistic manner. Interestingly, this “open economy” model was embraced somewhat earlier by European economists because the smaller European economies experienced far more symmetrical interdependence and greater shocks among themselves before the 1970s than did the U.S. economy with other nations. The more asymmetrical interdependence and size of the U.S. economy made it less vulnerable to international shocks from other nations, hence events did not trigger the same academic imperatives that mutual vulnerability triggered among European economists. This created a paradigm shift in the field of economics: economists were more emphatic about models that analyzed national economies as operating within and affected by global networks (Interviews November 3, 2011 and December 29, 2011).

Government bureaus have vigorously responded to the growing challenge presented by globalization. The response has been multivaried, but in essence the response has produced bureaucracies that are more sensitized to the interconnected nature of issues in a globalized world. The blurring of domestic and international issues has called for economic analysis that is far more holistic in nature. Interestingly and unfortunately, the sort of wide-scale structural changes in government bureaus that would better produce such analytical orientations has lagged far behind other changes that have responded to this challenge. Structurally, government bureaus would be far more effective in responding to global challenges if they were more flexible. More specifically, different circumstances in the world call for changes in entire bureaus: sometimes changing the mission, management and procedures of existing bureaus; sometimes subsuming old bureaus into entirely new bureaus; and in some cases eliminating specific bureaus entirely. For reasons well known among government employees and students of the dynamics of government bureaucracies, the possibility for such changes are extremely limited. The anatomy of this rigidity has been extensively studied under the rubric of “bureaucratic politics.” Much derives from the vested interests created within the bureaus, which resist change because it threatens existing frameworks of authority and jurisdiction. Much also derives from bureaucratic

drag: procedures and structures that have long been in place are difficult to unravel. There is a certain momentum and path dependence that tends to keep time-honored systems of management in place, even after they have become less effective in fulfilling their purposes. Moreover, there is a rigidity about standing missions that maintains in place systems of solutions to old problems that are far less pressing than newer problems, the latter requiring far different approaches.<sup>4</sup>

In this respect, large-scale restructuring of bureaus is uncommon. It is no surprise that such restructurings have tended to come in periods of crisis or turmoil. It is only such conditions that could actually be capable of overcoming all of the roadblocks to change created by normal politics and bureaucratic stasis. Two glaring examples are the National Security Agency (NSA) and the Department of Homeland Security (DHS). The former was a product of the fear generated by the advent of the Cold War and the latter was created in the fallout of 9/11. The NSA, which preceded by the Armed Forces Intelligence Agency, was created in 1952 and was designed to integrate functions across a broad sector of intelligence bureaus in order to coordinate the gathering and evaluation of intelligence. The Cold War and the sensitive security environment it created necessitated an intelligence capability whose abilities could match the need to respond to the speed and complexity of events. This led President Truman to push for a new agency that was able to breach the walls of bureaucratic jurisdiction among offices that historically acted independently. Similarly, the DHS was the result of a major revamping of government bureaus in order to coordinate functions that related to the protection of the U.S. from potential menaces. Like the NSA, the DHS was a response to a major crisis and also was strongly pushed by a President (George W. Bush). It is a testament to the need to restructure government offices in order to effectively protect the nation in a globalized world. Like the NSA and the Cold War, the DHS has been a response to the greater speed and complexity of threats in such a world. Outside of crisis and Presidential involvement, the government's response to the new global environment has more commonly taken other forms, but it is instructive that such demands for restructuring are a constant phenomenon both on Capitol Hill and the White House. The most recent example is President Obama's attempt to replace the Department of Commerce with a new bureau that would subsume the Small Business Administration, the Office of the U.S. Trade Representative, the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency. While a major objective of this "streamlining" would be to eliminate duplication in functions among the various offices, an equally important consequence would be the integration of tasks that a globalized world has rendered more and more interdependent. In a globalized world; the processes of trade, investment, protectionism, and development demonstrate more numerous, faster, and more complicated interaction effects.

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<sup>4</sup> The literature is extensive, for an especially intelligent and lucid work in this genre of bureaucratic politics, see Halperin (2006).

Such an integration of functions would be far better suited than the existing bureaucratic structure to meet such a challenge.<sup>5</sup>

The more common responses on the part of American government bureaus to the need to function more effectively in a globalized world have come through (1) a greater emphasis on pursuing “open” economy models in the analysis of both domestic and international problems facing the nation, (2) greater cooperation and coordination with foreign bureaus and actors, as well as greater cooperation and coordination among themselves. Each has delivered functions far better suited to address the challenges of globalization.

### *Open Economies*

In a sense, government bureaus have themselves become open institutions intellectually. Demographics in the workforce of government economists have manifested changes in the sciences. As with academic economists, government economists are far more knowledgeable and sensitized to the effects of international forces in their analyses and models. Aside from the greater expertise on international economics in general, bureaus have been increasingly staffed with international specialists.<sup>6</sup> The Treasury, Federal Reserve (Fed), the International Revenue Service, the Department of Defense (DOD), and Department of Energy (DOE), Department of State (DOS) have seen especially significant increases in international analysts within their workforces. The Fed alone has gone from a bureaucracy oriented around domestic monetary issues, to one where most of the economists employed work in the international finance division. Treasury of course has had to service the increasing demands for international financial and monetary diplomacy in a globalizing world with a phalanx of staffers whose analysis and participation support the bilateral and multilateral obligations of the U.S. government. The interest in international economics has exploded conterminously with the growth of the international economy and globalization. There is no more poignant testament to the interest American government economists demonstrate with respect to the impact of international forces on the US than a simple scan of the contents of the *Economic Report of the President*. From the years following World War II to the present, there has been a dramatic change in the orientation of the report, from one that paid scant attention to the global economy to one that fundamentally

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<sup>5</sup> It is interesting that even after the legislation of Great Depression made bureaucratic restructuring easier by giving the President the ability to push through plans to reorganize government bureaus with only a simple up-and-down vote from Congress, such large-scale reorganizations have been rare. See Jansen and Silverleib (2012) and Meckler (2012).

<sup>6</sup> But even in areas that involve predominantly domestic issues, there is certainly a strong preference among government employers for economists who can see the big picture: i.e., can take into account all of the relevant variables which should bear upon outcomes in those issue-areas (Interview November 3, 2011).

thinks of the American economy as fully integrated into an international network of mutual sensitivity. We see the attention to the international economy grow from a handful of pages to the consistent appearance of entire chapters of the *Report* devoted to global developments and their impact on the domestic economy. This is also the case with respect to how American government economists understand and predict outcomes in foreign economies: there is much more emphasis in the DOS, Treasury and Fed on looking at how international shocks shape those economies (*Economic Report of the President* and Interviews June 16, 2011; November 3, 2011; November 10, 2011; November 21, 2011; December 15, 2011; and December 19, 2011).

The models and analysis within government bureaus have followed the demographic shift in their workforces commensurately. While the Fed, like all other major central banks, has always paid attention to the linkages among financial systems, the analysis of the present day has been characterized by fully integrated models of financial interpenetration. Tracking foreign developments and analyzing their impact on the American monetary and financial systems are now inextricably linked to both how we understand the American finance and how we formulate policies to promote its prosperity and stability. Notwithstanding the relative size of the American economy in the world system, the idea of “fortress American” is no longer viable. Financially and monetarily, we can only function well if we consider the workings of American finance within the context of international financial networks. The early warnings of the 1960s to take note of the impact of globalization on our monetary policies cited a deficiency in that period, which now has been completely wiped away by a more globalist orientation that dominates the financial and monetary bureaucracy. Similarly, both the Treasury and IRS, in their myriad functions devoted to protecting the fiscal integrity of nation, have come a long way from the standard Harberger general equilibrium model of corporate tax incidence (1962)--which analyzed the fiscal system without taking into account international effects--to analytical mandates in which international effects are major components. Economists who do analysis on taxation use models that generate estimates of how differing tax policies would affect the general fiscal state of the nation. Whether on an individual or corporate level, there is no longer such a thing as an encapsulated domestic effect for a given tax policy. There are possibilities for international slippage with any given domestic tax policy change. A globalized world presents both individuals and corporations a myriad of avenues through which to avoid or evade specific domestic taxes. Both can diversity investments and revenue sources internationally so as to minimize domestic tax exposures. The venues are all the greater for American corporations who have built complicated international financial networks to minimize their tax exposure.

An especially difficult venue to regulate involves how corporations can manipulate the valuation of new patents when transferring ownership over these goods between parent companies and subsidiaries. Corporations can value such “intangibles” in ways that shield the true worth of these goods from both tariffs and taxes. The Treasury’s estimates suggest that such avenues of tax aversion are extensive in the global economy. And given that in our present post-modern economy there is an increasing production of intangible products relative to tangible products, this problem promises to grow ever more for economists at Treasury and the IRS. As Eric Toder, an economist in both the IRS and Treasury, asserts, “You can’t speak intelligently about corporate taxation without taking into account the international effects.” In a globalized world, Toder notes, every “corporate tax is an international tax.” In this respect, the avenues for

slippage create such speed and complexity in tax avoidance and aversion, that Treasury and IRS economists charged with ascertaining the structure of fiscal flows are in a constant state of catch-up. Len Burman, an economist in both Treasury and the Congressional Budget Office (CBO), likened it to a game of whack-a-mole: as soon as one avenue of evasion or avoidance is compromised, another pops up (Cooper 1968 and Interviews June 16, 2011; November 10, 2011; November 21, 2011; December 15, 2011).

Even issues that were historically seen as domestic preserves in the past have been increasingly analyzed in an international context. The DOE's goal of providing adequate energy to the nation has gone from a geographically encapsulated issue to a truly global one. The global energy market has fundamentally configured the state of American energy. More than ever nations are integrated within a global energy network, where the demand and supply of energy are determined on a far larger scale than the confines of any nation. The U.S., notwithstanding its prodigious capacity to produce energy, is critically concerned with its access to foreign sources of energy. The power of the international market has made a fundamental goal of US policy, limited dependence on foreign sources of energy, difficult to achieve. Perhaps the most revealing fact about the global nature of energy is that the US is both the leading consumer of energy and will soon become a net exporter of energy. The focus of American energy policy has increasingly sought to address domestic energy needs through international solutions or regimes (e.g., constructing workable systems of international cap and trade, and carbon taxes, that are destination based).<sup>7</sup> Similarly, with the Environmental Protection Agency, the advent of globalization has produced challenges to expand its geographical scope. While many environmental problems in the U.S. are strictly local in scope, it is also apparent in an interdependent world that many local problems are increasingly taking on an international nature (global warming, ozone depletion, harvesting resources, etc). Pollution, a major environmental problem, crosses boundaries and so domestic issues often turn into international ones. As domestic environmental problems are becoming more international, environmental economists need to expand their geographic range of analysis. The internationalization of the energy market has not only had an impact on economists at the DOE; because energy is a fundamental driving force in determining environmental conditions in the nation and the world, it has impacted the analysis of economists at the EPA as well. For example, an important concern for EPA economists is the international market for energy, which can affect problems and solutions for the domestic environmental system. Conditions in the oil market will determine American use of fossil fuels, which in turn will affect the pollution from the use of these fuels. Also, oil prices and the prices of renewable energy feedstocks (e.g., corn, soybean) strongly affect the cost of using alternative fuels such as ethanol; and so on. Similarly, the Center for Disease Control in the Department of Health is far more international in its interests with the advent of globalization, as

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<sup>7</sup> Eric Toder has noted that with respect to American energy "everything is international" (Interview December 19, 2011).

the transmission effects in an interdependent world are so much greater (Interviews December 1, 2011 and December 29, 2011).

Perhaps the most compelling testament to the advent of open economy analysis in government bureaus that traditionally focused on domestic issues is the evolution of work done by economists in the CBO and the U.S. Government Accountability Office (GAO). Both the CBO and the GAO (often called the “congressional watchdog”) both serve broad analytical functions in support of government spending. Since U.S. government spending is allocated to a vast number of both domestic and international programs, the CBO and GAO nicely reflect the geographical intersection among issues in a globalized world. First, in response to the growth of a global community, the amount of pure international analysis and the number of people engaged in it has increased significantly over time in both bureaus. The GAO is especially interested in the effectiveness of government spending across all the programs sponsored by Congress. The analysis often comprises the effectiveness of the outlays, and models outcomes under alternative spending plans. Its International Affairs and Trade Team (IATT) has grown in importance as globalization has advanced in magnitude. The IATT’s principal analyses target the workings of trade regimes and foreign aid programs. Similarly, the CBO has increased its attention to international developments, both in their own context as well as in their impact on domestic programs. Both agencies have increasingly gone to simulation models that are analytically couched in a global context (Interviews November 9, 2011 and December 1, 2011).

#### *Growing Cooperation with Foreign Bureaus and Among U.S. Bureaus*

U.S. government bureaus have also responded to the global challenge by greater interchange with foreign bureaus and actors, as well as greater coordination and communication among themselves. In the more complex global environment where shocks are more unpredictable and the consequences are greater and more rapid, the need for cooperation among differing actors (trying to obtain specific goals in an interdependent world) has become paramount. With respect to linkages among U.S. government bureaus, the networks among American government economists has grown extensively with the advent of globalization. Just as globalization has blurred the line between domestic and international issues, so too has it blurred the distinction among issues addressed by the U.S. government. While, as noted, significant restructuring of the U.S. federal bureaucracy is uncommon because of the reasons stated above, U.S. bureaus have done the next best thing by increasing both formal and informal cooperation among themselves. We have seen the greatest manifestations of this process in purely economic issues such as finance and trade. Linkages among the bureaus with international economic mandates (Treasury, DOS, Commerce) have seen an especially pronounced development. But each bureau in the federal government addresses issues that impact and are impacted by issues under the purview of all other bureaus, to some greater or lesser extent. What bureau is not impacted by the budget (IRS, CBO), national security (DOD), developments in foreign and international political economies (DOS), food security (Agriculture), energy security (Energy), the state of American workers (Labor), financial shocks (Treasury, Fed), the quality of American schools (Education), and so on? And these are simply bivariate interaction effects. If

we consider multivariate effects, the myriad of possibilities is endless. Each link in this complicated chain has produced at least some form of inter-bureau activity. This is not to say the U.S. government bureaucracy is perfectly responsive to the advent of such programmatic needs, as the bureaucratic parochialism mentioned above is still a significant obstacle to the existence of optimal networks among bureaus. But it appears that the need to meet the challenges of globalization has undermined a great deal of the parochialism that has attempted to maintain independent mandates and operations. But aside from consulting with each other on addressing important issues, they also continue to learn from each other in terms of identifying the best possible models of estimation for their analyses (Interviews December 15, 2011 and November 9, 2011).<sup>8</sup>

Globalization has also spawned a response with respect to linkages between U.S. bureaus and foreign bureaus/actors. On purely international matters such as trade and finance, globalization has produced a predictable explosion in bilateral and multilateral networks among government bureaus and their correspondent institutions in other nations. The growth of international cooperation on money and trade has exploded in the post-war period. The proliferation of venues for international economic diplomacy has been a testament: the rise of summitry, IMF, OECD, G3, G5, G7, G8, G20, WTO, BIS, etc. As nations have continued to grow interpenetrated economically, so too have economists trying to understand and predict their economic fates been pushed to partake in an ever expanding network of coordination in international fora. This has increased the number of economists who support this burgeoning diplomacy. But it has also reoriented the ways in which economists understand and protect their own domestic economies. Such objectives no longer begin at the domestic macro level, but begin in the context of the markets for international capital and goods. Globalization has raised the international economic objectives as a necessary condition for most domestic economic objectives. Macro targets such as inflation, growth, investment, fiscal integrity, consumption, and government spending are increasingly pursued collectively through diplomatic bargaining. The preponderance of “escape routes” through which capital, goods and corporations can evade unfavorable domestic laws, makes such collective targeting imperative. Simple domestic solutions can be effectively neutralized in global markets. An especially difficult challenge has come in trying to interface policies across nations in response to opportunities for global slippage. For example, in protecting the integrity of the American fiscal system, the U.S. has been an animated force behind the creation of uniform tax codes across nations. The OECD has long had a treaty which has attempted to do so, but the expansion of business restructuring in the context of global financial and investment networks has made the codes far less effective in imposing a just and fair system of taxation among multinational corporations. The OECD continues to wrestle with this problem, and the U.N. has also joined in by producing its own

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<sup>8</sup> A example of this analytical cross-fertilization is the use in the GAO of a microsimulation model couched in a macro context. This model, borrowed from Social Security Administration economists, has proved most valuable in estimating the performance of entitlement programs--especially Medicare and Medicaid--under differing policy scenarios (Interview November 9, 2011).

international tax rationalization treaty. This economic interdependence has spawned much cross-fertilization among both U.S. bureaus and their counterparts in foreign nations. The need to communicate and create a more “transparent” international network of economic flows has increasingly brought government economists across nations together (Interviews June 16, 2011 and November 21, 2011).

Many of these initiatives emanate from foreign governments who send their economists to visit the American government bureaus to learn about how the latter operate. The Fed has long has a program in place to train foreign economists on the art of central banking. It has also promoted cross-fertilization through its sponsorship of workshops and international conferences. Treasury economists regularly advise foreign governments, often through their roles in international financial institutions (World Bank, IMF), on financial issues. Similarly IRS economists offer such services to foreign economists on fiscal matters. The DOS regularly sends study groups to nations to observe and advise on economic policy. The bureaus with international mandates have seen the greatest increase in such contacts, but even bureaus with very strong domestic mandates have experienced a growth in this cross-stream of economists. The EPA has developed into an attractive source of information and advice since the 1980s. Its success in promoting the cause against the use of lead in gasoline made it an especially popular role model in the economics of the environment among developed nations in that decade. The EPA continues a program of exchange among economists with corresponding foreign bureaus. During the past 5 years, mainly under the past administration, an especially strong issue driving EPA outreach has been assessing the costs and benefits of limiting emissions from coal use, and this has resulted in some visits on the part of its economists to China (Interviews June 16, 2011; November 3, 2011; December 15, 2011; and December 29, 2011).

As the Congressional watchdog and advisor on all matters of governance in the U.S., the GAO is nicely demonstrative of this growing international network among government economists. Like all other bureaus, the GAO vigorously looks to other nations for policy options. The GAO has increasingly brought foreign developments into their deliberations about the functioning of domestic programs. The recent sovereign debt crisis, for example, has been of paramount importance in assessing the effectiveness of government programs. In terms of its analyses, the agency is very interested in how Americans could benefit from alternative policies: i.e., how different incentive structures would achieve the goals of government. In performing this function, knowledge of foreign practices has become essential. GAO economists have looked at foreign programs across all functions of government in trying the model the impact of differing policy scenarios. Their staff travels frequently to foreign nations in creating international networks to assess how American aid is being used. These networks have included grass roots organizations as well as foreign government bureaus. More recently two special points of interest on alternative policy regimes has been in how other countries construct their budgeting and welfare programs. Economists in GAO have also shown a pronounced interest in how foreign bureaus create national economic performance indicators as possible models for constructing more accurate measures of American performance. Tom McCool of the GAO has asserted that knowledge of foreign developments is essential for all American government economists: no economist, in his view, could do his/her job optimally without such knowledge.

Concomitantly, a slew of foreign economists have come to the offices of the GAO, as well as other American government bureaus, to learn about American programs for their own policy options. The European Commission in Brussels regularly sends economists to the GAO liaison office in Washington to talk to US economists on how American government programs function. The GAO also sponsors an ongoing education function of training foreign economists on how GAO economists operate. Aside from these more regular programs, there are numerous ad hoc visits by teams of foreign economists for similar purposes. Both American government bureaus and their foreign correspondent institutions are doing far more comparative studies of specific programs to ascertain the viability of these programs. The CBO, which has many analytical functions related to those of the GAO, and hence is also a poster board for the internationalization America's public economics corps, has similarly immersed itself in transnational exchange. Its economists often visit foreign nations, and reciprocally foreign government economists come to learn from its economists. In fact, members of the CBO staff regularly participate in the International Microsimulation Association (IMA) and attend international conferences as well. The GBO even publishes its own journal (Interviews November 1, 2011; November 9, 2011; December 1, 2011; December 15, 2011; and December 21, 2011).

It is no surprise that historically this cross-fertilization has been uneven, as the U.S. is more often the supplier of information than the demander or recipient of information. First, the great American economic miracle of the post-war period has turned it into the world's leading role model of bureaucratic management and organization. This "soft power" has made it a natural target for foreign government bureaus that are looking for viable policy alternatives. Second, the miracle has historically generated an arrogant psychology among government bureaus: i.e., the dominant nation has much more to teach the world than learn from the world. The miracle has also generated an element of moral hazard, i.e., American achievements have made American bureaus somewhat lax about looking to other nations for superiors modes of operation (although, as this article shows, such arrogance and complacency are most definitely on the decline). Finally, since the U.S. has a far greater international presence in the world than any other nation, and hence is more invested in the world, it has a far greater incentive to monitor and advise foreign nations with respect to the way their government bureaus operate. (Gallarotti 2010a and 2010b and Interviews December 15, 2011 and December 19, 2011).

### ***Still Much Work to Do***

Government bureaus have responded well to the challenges of globalization, but much work still remains. More broadly, government economists Toder and Burman have lamented that American bureaucrats are still fairly arrogant as analysts and managers. For these bureaucrats, America and American methods are still the benchmark, hence their curiosity about foreign counterparts and the viability of the methods used by the latter is still somewhat constricted, to the detriment of the American people. Ongoing efforts must continue to create more humility among government bureaucrats, and consequently reach out to foreign economists, both with regard to the variables used in the analyses and the people consulted. Moreover, Burman notes

that above and beyond the limitations caused by arrogance, “the politics is impossible.” Much of this politics has transcended the elite battle among politicians themselves, and become deeply entrenched in the bureaucracy as well because many bureaus manage programs that have robust constituencies in Congress. Partisan politics and vested interests impose some of the most daunting obstacles to process by which objective and scientific analysis leads to viable solutions to America’s greatest problems. In this respect, economists not only face the difficulties of the problems themselves, but the challenges of framing viable policy options in the face of vast political distortions. This is a tougher nut to crack than the consequences of arrogance. But there are strategies that bureaucrats can employ that would help in the cause of pushing objective and scientific solutions. Inter- and intra-bureau alliances on valued initiatives could provide greater momentum to break political logjams. Similarly, bringing politicians and other bureaucrats on board in a bipartisan coalition before going to and during the battle could create a sharper wedge to cut through the normal politics. As economists have become strongly entrenched in the policy-making apparatus of government, they would indeed have the influence over politicians necessary to bring the latter on board in the interest of coalition building. Also, economists could add foreign actors in their transnational networks to the fold: thus generating a more compelling alliance. Furthermore, economists need to work harder to reach agreement on important issues. This failure to muster stronger intellectual harmony has plagued efforts to build coalitions among government economists. Finally, bureaucrats can accept greater responsibility for the success of policy options, so as to shield decisionmakers from the political fallout of failure, thus emboldening the latter to go with more viable yet politically risky policies.

In addition to problems of arrogance and politics, bureaucratic parochialism still plagues the process of effective economic analysis. Bureaus, for very particularistic and jurisdictional reasons, continue to work at odds rather than cooperatively in the service of the public. Barber (1981, p. 176) notes that the competing structure of the government bureaucracy “institutionalizes conflict.” While even Presidents themselves have largely failed to break down this organizational feudalism, it is nonetheless important that politicians and bureaucrats continue the assault. In the service of this goal, strategic action (i.e., take advantage of crises and convergences in politics) could be quite effective in breaking the parochial logjams. Ideally this will create a tendency for organizational flexibility that encourages more frequent restructuring of the government bureaucracy in response to dynamic and complex problems (Interviews December 15, 2011 and December 19, 2011; Pechman 1989, pps. 122, 123; Barber 1981, pps. 175, 176, 197, 198; Halperin 2006; and Gallarotti 2004).

The responses to the specific conditions bred by globalization can improve as well. Ongoing work needs to be done to more effectively deal with the challenges of the complexity, speed, and magnitude of transmission created by a global environment. Increasing efforts to deal with complexity must underscore the need to pay attention to feedback effects. Tracing feedback effects will lead to the contemplation of many more possible solutions. This will also require thinking about unexpected or counter-intuitive outcomes, as well as thinking out of the box and considering unconventional policy options. On a practical level, dealing with this greater range of possibilities will, in turn, require more real-life tests of differing policy options. While economists rely heavily on simulation models, a great deal more can be revealed through the additional use of actual micro-experiments using real people. With respect to the problems

presented by the speed of outcomes in a globalized world, economists will have to be far more pro-active and anticipatory in the solutions they frame and policies they recommend. This will necessitate a rather uncommon thought experiment: framing solutions to problems that have not yet occurred. In this case, economic analysis could function like disaster insurance: cover all possible threats no matter the origin. On a practical level, bureaucrats and decisionmakers must forsake long-standing tendencies toward stasis in implementing solutions and policies: i.e., plans that do not work should be quickly terminated and replaced. The best way to realize this speed would be to line up networks of action in advance. More specifically, create chains of implementation for all possible plans, and activate them as soon as a plan needs to go into action. This “merely press a button” recipe carries great potential for creating a problem solving apparatus that matches the speed of outcomes in a globalized world. Finally, in a world where even small shocks or disturbances generate consequences of great magnitude, bureaucratic solutions to problems must be more robust. This quest to match the magnitude of corrective options to the magnitude of the problems calls for the bureaucratic strategies (above) that facilitate speedy responses to complex situations. Responses of greater magnitude require bureaucratic and political coalitions of greater magnitude. Not only do more bureaus need to cooperate and jointly inveigh for specific policies, but their efforts must be supported by greater coalitions that create political capital and will. This may also include strategies of tapping public sentiment and support. In this latter respect, economists would have to do a better job in communicating with and appealing to the general public (Pechman 1989, p. 123).

American government economists have long helped to guide U.S. leaders in protecting the interests of the American public. Their efforts have stood the test of time. But the modern world has experienced a great transformation. Globalization has created a far more complicated and difficult world political economy. The U.S. has depended on and continues to depend on this able corps of civil servants to help navigate the great ship through rough waters. While the modern waters have proved more turbulent, the quality of the navigation has risen concomitantly. Even so, there is still much to learn and much work to do in charting the voyage in a globalized world.

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