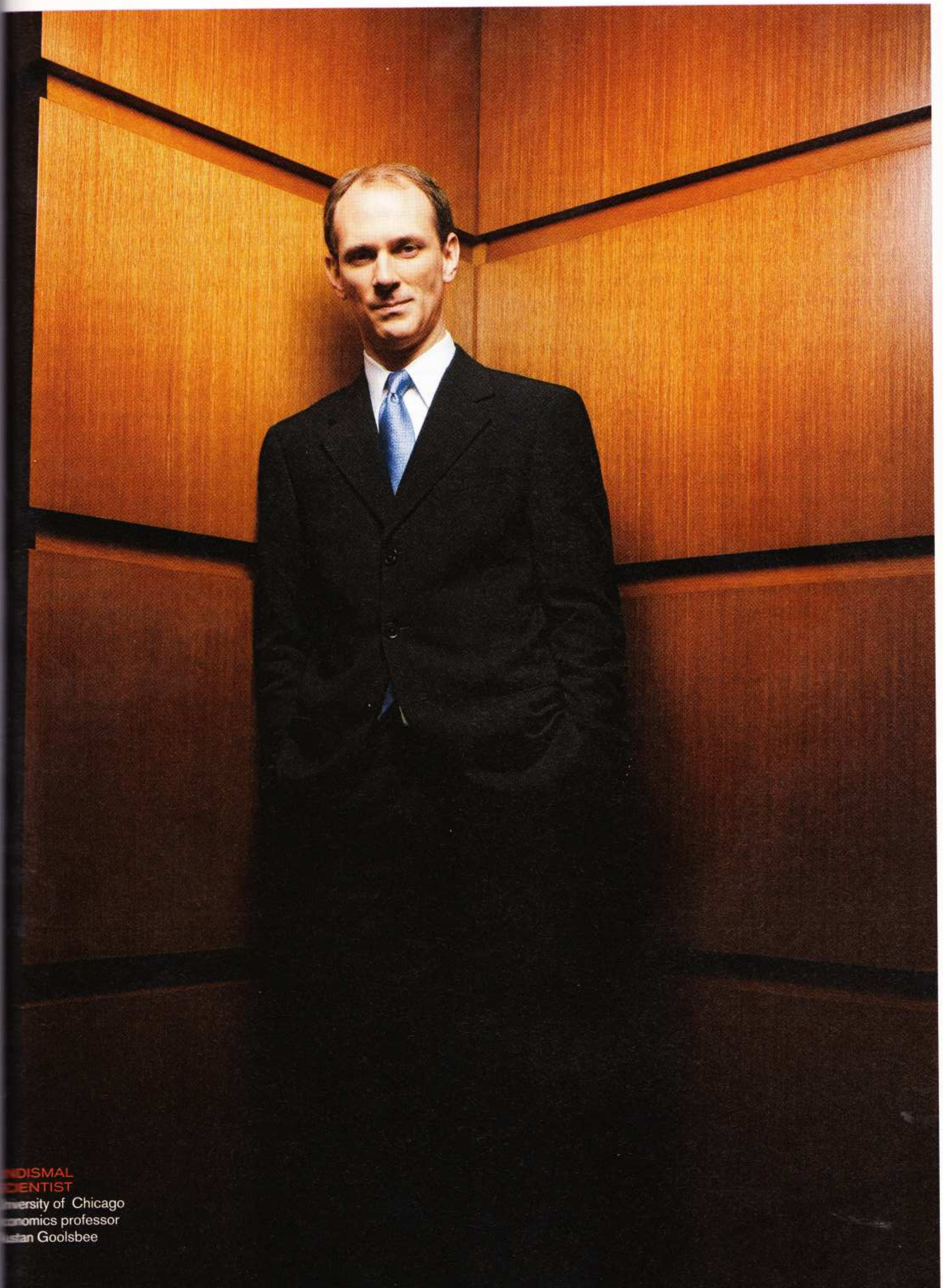

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Austan Goolsbee

# Obama's Geek Economist

AUSTAN GOOLSBEE IS A NEW BREED OF ECONOMIC ADVISOR FOR A NEW KIND OF PRESIDENTIAL CANDIDATE.

*By* MARK WILLIAMS

The Fourth of July is just days away, and on the Loop's crowded streets and plazas, outside the downtown campus of the University of Chicago Graduate School of Business, the city swelters. Upstairs, in an air-conditioned office, Austan Goolsbee is recounting how he was transformed from an economics professor into the senior economic advisor to a candidate for the presidency of the United States.

Goolsbee must pick his words more carefully now, but it's no great strain for him to tell a good story. The two men met in 2004, after Barack Obama became the Democratic contender for junior U.S. senator from Illinois and the Republicans fielded the perennial candidate Alan Keyes. Though Keyes's Christian Dominionist views on government and society have long made him unelectable, the Democrats wanted to ensure that Obama could demolish the opposition's economic platform. So his campaign contacted Goolsbee, whom Obama knew by reputation, from his own years teaching constitutional law at the University of Chicago, as an expert on much that was cutting-edge in economics.

Keyes's economic plan was to abolish the income tax and replace it with a national sales tax that exempted all housing, food, and transportation purchases as well as the spending of the poor and elderly. What would the sales tax have been for *unexempted* goods, I ask, if the U.S. government's operating revenues were to be maintained? About 70 percent, Goolsbee replies, laughing. During 2004, the Obama campaign grew accustomed to calling on Goolsbee's expertise. The candidate exchanged e-mails with the professor. Still, they had no face-to-face contact. The two finally met in October, during the second debate between Obama and Keyes, at the ABC studio in Chicago.

"I hung in this room outside with Michelle, who was cool," Goolsbee recalls. Finally, informed that the candidate was ready to receive him, he knocked on the door. "Obama opened the door, looked at me in bafflement, and said, 'Who are you?' I said, I'm Professor Goolsbee. Obama said, 'You *can't* be.'" He'd been expecting an older tweed-jacketed academic, not—as Goolsbee claims Obama phrased it—another skinny, tall, youthful, geeky guy with big ears and a funny name.

Goolsbee, now 39, graduated from Yale in 1991, earned his doctorate from MIT in 1995, and in slightly more than a decade has built a remarkably broad résumé, which includes membership in the Panel of Economic Advisors to the U.S. Congressional Budget Office, columns in the *New York Times* and *Slate*, a Fulbright scholarship, and even a stint hosting a television show, *History's Business*, on the History Channel. As Tyler Cowen, an economics professor at George Mason University and the author of the popular blog *Marginal Revolution*, says: "Austan Goolsbee is *smart*."

Generations of the best and the brightest have come and gone in Washington, DC, usually without effecting significant changes. In this, Goolsbee may or may not turn out to be exceptional. Nevertheless, he *is* something different in a presidential campaign: he is part of a generation of economists who have focused on the Internet, network effects, behavioral economics, and neuroeconomics. Whether Obama wins or loses, this is the first time a U.S. presidential candidate has had a chief economic advisor whose outlook and skills are those of a 21st-century economist.

Moreover, if Obama does win, 2008 will be a watershed election in American political history for reasons unrelated to the new president's skin color. For decades, the resident of the White House has been closely associated with the South or Southwest. Now, someone from the intellectual milieu associated with the University of Chicago is a plausible candidate. Along with Goolsbee and other members of this intellectual movement—including Chicago Business School professor Richard Thaler, a founder of behavioral economics, and Cass Sunstein, a former professor at Chicago's law school—Obama subscribes to a distinctive set of economic theories developed at the university, and to a corresponding set of policy prescriptions. These people are Chicagoans, who—to paraphrase a native son—go at things in their own way, on the basis of first to knock, first admitted. If Obama reaches the White House, they will not be shy about implementing those prescriptions.



*Photograph by* CHRIS STRONG

**BEST BEHAVIOR**

Twenty-first-century economics is preoccupied with technology, both as a force for change and as a source of insights about economic behavior. But Goolsbee admits he didn't initially grasp the transformative power of *one* new technology. "When I was at MIT, they had a beta test of Mosaic, the first popular browser," he says. "I remember looking at it, and there was a weather map or something. Now, in fairness to me, there weren't any websites then. But I remember saying, 'This is stupid—what's the point?' Now, of course, it's obvious. But at the time they all but handed me the World Wide Web and I was like, 'Aw, who cares?'"

He soon caught on, however. "When the Internet first appeared, this heated debate developed among economists," he recalls. "One side said the Internet will make it easier for companies to price-discriminate, and it'll be fabulously profitable. The other side argued that the Internet will be the great equalizer—it'll make markets close to perfectly competitive and people much more price-sensitive, and profits will be highly constrained. I'm probably the leading guy associated with that second position. Arguably, I got lucky, but what I wrote basically turned out to be correct."

Goolsbee's writings on this subject started bringing him "calls from all over the place, from policy makers and businesspeople—online merchants, particularly." In the late 1990s, he published some highly influential papers that evaluated the depressive effects of taxation on Internet commerce. Finally, having been an assistant professor of economics at the University of Chicago Graduate School of Business since the age of 25, Goolsbee (who was born in Waco, TX, and grew up in California) gained tenure at 32.

Today's University of Chicago economists are quite unlike the free-market-fundamentalist followers of Milton Friedman who made the university famous in the last century. When Goolsbee and I return from lunch through the school's lobby, we pass displays of books and magazines promoting the faculty's research. Much of it resembles the stuff popularized by Steven Levitt's 2005 best-seller *Freakonomics*. Levitt, another University of Chicago economist who received his PhD from MIT, subtitled his book *A Rogue Economist Explores the Hidden Side of Everything*; in it, he applies contemporary economic analysis to subjects ignored by previous generations of economists—subjects like the poor earnings of inner-city crack dealers. Similarly, the school's publication *Chicago GSB Magazine* presents studies examining such questions as why many African-Americans, averaging a fraction of the financial worth of their white counterparts, invest more heavily in bling. In the context of the University of Chicago, Levitt, far from being a rogue economist, reflects a general rejection of some of the tenets of neoclassical economics.

According to neoclassical theory, individuals and groups act according to what economists call the rules of maximizing behavior—that is, individuals *always* act rationally to increase their own personal advantage, and firms *always* act to maximize profits. Neoclassical economics has notorious logical difficulties. It presupposes that individuals possess the necessary information to make choices, without explaining how they acquire that information; and it assumes that people know their preferences sufficiently well to be good maximizers, yet it never accounts for how, when a new technology or other novelty appears, they discover those preferences in the first place. To address these shortcomings, economists like Levitt, Thaler, and Goolsbee have increasingly taken two general approaches that are broadly complementary.

First, they have turned to the empirical study of specific behaviors among restricted populations, because in such microeconomic contexts the data tend to be easily obtainable and to yield striking discoveries. Second, economists have imported insights from behavioral psychology and neuroscience.

There was one other best-selling book on display as we passed—*Nudge: Improving Decisions about Health, Wealth, and Happiness*, by Richard Thaler and Cass Sunstein. (Thaler is director of the Center for Decision Research at Chicago's business school. Though without a formal title in Obama's campaign, he consults regularly with Goolsbee. "My main role has been to harass Austan, who has an office down the hall from mine," he has said.) *Nudge* is an introduction to behavioral economics, which since the 1970s has accumulated a substantial body of lore. Often, it has developed such insights with the help of neuroeconomics, which uses technologies like magnetic resonance imaging (MRI) and positron emission tomography (PET) to capture the neural mechanics of decision making. At *Nudge*'s beginning, Thaler and Sunstein provide readers with a big, easy metaphor: your brain, they write, is divided between your automatic system (your inner Homer Simpson) and your reflective system (your Mr. Spock).

What does all this have to do with Barack Obama? Much of Goolsbee's writing is more technical than *Freakonomics* and *Nudge*, and his own research focuses on taxation, the Internet, and network effects; but in his policy prescriptions he's very much of the new Chicago school of economics. When our tendencies to make irrational decisions are understood, the Chicago economists argue, we can design "choice architectures" (Thaler and Sunstein's phrase) so that people default to better choices about matters like investment or taxation. Hence Obama's proposal that companies offering 401(k) retirement accounts should enroll their workers automatically, making participation the default option and opting out a conscious choice. Thus, too, Goolsbee's plan to simplify income tax filing for that majority of Americans who take only the standard deduction: under Goolsbee's scheme, the IRS would send all those taxpayers a return with the relevant information, so that signing the prepared form would become the default choice—saving taxpayers 225 million hours and $2 billion in preparation fees.

#### AMERICA AS HOSPITAL

In March it seemed as if Obama might throw Goolsbee under the bus. A furor erupted over a leaked memo, written by a Canadian official, telling his superiors that in a February 8 meeting at Canada's Chicago consulate, Goolsbee had given reassurances that the harsh rhetoric his candidate had voiced about the North American Free Trade Agreement while campaigning in Ohio—where many blame NAFTA for job losses—was only that. In the memo's words, Goolsbee explained that Obama's protectionist stance on the campaign trail was "more reflective of political maneuvering than policy." Unfortunately, one of the Obama campaign's first mass mailings had shown a padlocked factory gate with the words "Only Barack Obama consistently opposed NAFTA." Although Goolsbee retained his title of senior economic advisor, he adopted (or was required to adopt) a lower profile.

With Hillary Clinton's quest for the nomination defeated, Goolsbee is, once again, prominent in Obama's run for the presidency. Still, the question remains: many American voters wish the U.S. industrial economy of the 1950s and '60s could be restored, and with it the sweet deal unskilled workers enjoyed. Politicians fail to pander at their peril, and globalization is often held at fault for economic insecurity. But is it?

"Economic research hasn't pointed at globalization as the main culprit," Goolsbee says. For example, he explains, Chinese and American manufacturing barely overlap: the total of all imports into the U.S. amounts to only 16.7 percent of American GDP, and imports from China amount to just 2.2 percent. "In fact, the losers to China have been nations like Mexico," he says; likewise, if Americans stopped buying cheap toys from China, the manufacturing jobs would return to nations like Mexico, not the U.S. Goolsbee adds, "Trade has helped the economy grow. Simultaneously, a sizable number of Americans haven't shared in that bounty, and if we don't pay attention to their concerns, all the political favor for open markets will dry up."

Rather than globalization, Goolsbee believes, "the change in the demand for skills and use of technology" has reduced average Americans' economic security. Then is the problem an unwillingness to change and acquire new skills—a kind of laziness? "Since as far as hours worked, people here are working more than in any other major economy, that's really not the issue," he says. "Americans are no lazier than any other people. It's been the long-standing trend that the U.S. economy has been much more focused on areas involving high human capital." At the same time it's mistaken, he insists, to fear some automated dystopia "where everybody below the 50th percentile loses their jobs," because in a growing economy, a range of skills will always be needed. "When productivity increases in any given segment of an economy, wages rise there, and this spills over into relatively unskilled workers' pay. Picture a hospital, where there are high-skilled doctors, high-tech machinery needing experts to run it, middle-skilled nurse practitioners, and low-skilled people working in the cafeteria."

However, he continues, the trends of recent times have been disturbing: "The inequality and stagnation of incomes for 75 to 85 percent of ordinary Americans is a massive problem." Without income mobility and more investment in education, America could become a permanently stratified society. "Hence, the central issue confronted by Obama's economic program is, How do we address the squeeze on ordinary Americans? Because the barriers could become impermeable."

#### CREATIVE DESTRUCTION

"In 1910," Goolsbee says, "if someone could have gone back and told people then how many phone lines would exist today in the U.S., they'd have responded that that was physically impossible, because every American would need to be a telephone exchange operator. That few switchboard operators exist today, nevertheless, isn't a sign that all those people are unemployed. The labor economist Alan Krueger at Princeton has studied what share of the highest-paying occupations are occupation codes that didn't exist in the 1980 census. The figure is very substantial. There's always job churn." Continual job destruction and creation, Goolsbee insists, is healthy.

Where might future jobs come from, though? "There's a joke within economics that 40 years from now every economist will be a health-care economist, because if you simply extrapolate from the current trend, the whole economy will be health care." While we currently think of health care as a cost of business, Goolsbee continues, he can imagine it becoming a central driver of the economy. "Firstly, these are great engines of growth. Secondly, they make us healthy—and what's better than that? Spending on medical research and science, by any crass economic calculation, has a massive payoff, because if you put any value on life—for instance, if you've medicine that keeps people alive for an extra two years—the implicit value of that is great. I could *easily* see some emerging combination of medical science, biotechnology, and computing as the foundation of much of our economic growth going forward."

Goolsbee pauses, then says: "That's why the last eight years' degradation of the budgets for science and its general politicization are so upsetting. The government's commitment to investment in advanced training of our own people has plummeted, so now something like two-thirds of those gaining science and engineering PhDs here aren't U.S. citizens. For many years America led globally in the percentage of 25-year-olds with college degrees. Now the U.S. is 31 in the world—right behind Bulgaria and right above Costa Rica. The problem for countries with skill levels between Bulgaria and Costa Rica is that 20 years from now they'll also have income levels between those countries." TR

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