

**The role of research and researchers in economic policy-making:
some reflections based on personal experiences***

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Introduction

The role that research and researchers should play for economic policy-making is an important topic which probably all applied economists have reflected a lot on. It is very difficult to come up with some general theory and to make broad generalisations. It is much easier to try to draw conclusions if one can make explicit references to particular episodes. This is the approach here, where I draw on my personal experiences.

I shall focus on two issues:

1. The roles of value judgements and economic analysis in policy-making and the contribution researchers can make to hold them apart.
2. The possibilities of finding institutional frameworks for the proper integration of economic research in policy making.

Two views about the relationship between research and policy

There seem to exist two polar views about the relationship between economic research and economic policy.

The first can be labelled the *idealistic economist's view*. It is the one that most researchers start out their careers with. According to that view, policy is conducted by well-intending politicians, who try to maximise a well-defined social preference function. Therefore they are eager to get all the relevant knowledge about the economic relationships they can from researchers. Researchers in turn deliver the knowledge demanded and manage perfectly to separate their own value judgements from the analysis.

The polar view is the *cynical economist's view*. It maintains that politicians have no genuine interest in research. Politicians act as representatives of various interests and/or try to strike a balance between their preferences and the desire to get re-elected. All they want are research results supporting the policies they have already decided. So, they systematically refer to such results and try to discredit other research. The use of research results is just one of many means a politician can use to further his or her political aims. If so, research had better be self-contained within academia and we should not really try to disseminate research to politicians, as they will anyway misuse it.

There is a parallel to the cynical economist's view on the part of politicians: there is also a *cynical politician's view* of economic research. According to that, economics is not really a science. Instead, economic research is just a way of finding "scientific" motivations for economists' ideological prejudices. To the extent that politicians hold such views, it is likely to lead precisely to the selective use of research results that the cynical economist fears and thus serves to underpin that view of the behaviour of politicians.

Which view, the *idealistic economist's* or the *cynical economist's* is more correct? The truth is, of course, somewhere in between. But, unfortunately, I believe the cynical economist is more often right than the idealistic one.

The Swedish decision not to join the euro

From my own experience I can only find one clear-cut example where the idealistic economist's view has been the correct one. The example concerns Sweden's decision-making process on whether or not to join the EMU in the second half of the 1990s. To prepare the decision, the government in 1995 appointed a government commission, consisting only of academic researchers to analyse the pros and cons of EMU membership. I was personally involved as the chair of the commission.¹

This is one of very few experiences I have had of a genuine interest across the whole political spectrum of getting an independent, research-based evaluation of policy alternatives. The commission was left to work mainly on its own and its output did serve as an important input into the political process.

At the same time one should remember that circumstances were unusually favourable to an independent inquiry. After the deep crisis in the early 1990s there was genuine uncertainty on how to pursue future economic policy. Sweden had just entered the EU and there were few preconceived ideas of how to proceed from there. EMU was not a traditional left-right issue and opinions were therefore split within the major political parties. My conclusion is that it takes such very special circumstances for the relationship between economic research and policy-making to work out according to the idealistic economist's view.

¹ See Calmfors et al. (1997) for an English version of the report of the commission.

Our work in the government commission on EMU can also illustrate the key problem for economic researchers of how to deal with the relationship between value judgements and pure analysis. A fundamental question is if one should come up with a purely *positive* analysis of the effects of different policy options or if one should also make a *normative* analysis leading to explicit policy recommendations (which require value judgements).

The question is, of course, easy to answer if one gets an assignment with very clear instructions. But this is often not the case even with government assignments and it is certainly not the case with purely academic research. The Swedish EMU commission was not explicitly instructed to come up with a recommendation on whether or not Sweden should join the euro, but we were not forbidden to do that either, so it was up to the commission itself to decide.

We found the issue a very tricky one. On the one hand, a clear policy recommendation could undermine the credibility of the analysis. On the other hand, the analysis might not get the proper attention if it did not result in a clear-cut conclusion. Moreover, since the political process so often fails to hold value judgements and analysis apart, we felt we could make a pedagogical contribution by showing how this should be done.

So, we concluded that the arguments in favour of a clear policy recommendation prevailed. Therefore, we decided first to provide as fair an account of the arguments in favour of and the arguments against EMU entry as we could. Then we added a separate part of the report weighing the different arguments against each other based on both our quantitative assessments of various effects and our own subjective value judgements. This discussion led us to the conclusion that Sweden should not join the EMU at the start in 1999, but first later when Sweden had sorted out its macroeconomic problems.

Giving this recommendation, we tried meticulously to outline to what extent it was based on the analysis of various effects and to what extent on our value judgements. The main motivation for our conclusion was that we assigned a large weight to the objective of being able in the short run to prevent possible further cyclical reductions of employment (in the then situation of very high unemployment) relative to the objective of achieving high output growth in the long run and an assessment that an independent monetary policy is an effective

means of achieving the stabilisation objective (whereas a common currency has only a small effect on potential growth).

In addition, we included a *sensitivity analysis*, where we tried to show how the conclusions would change with other value judgements than ours (regarding for example short-run employment stabilisation versus long-run growth) or other assessments of the effects of EMU entry. We also tried to convey very clearly what parts of the analysis were most uncertain (for example regarding the trade and growth effects of the euro).

Were we successful in providing a good basis for policy making? My view is that we made a significant contribution to raising the level of public discussion. I believe this helped politicians and voters to make more rational considerations.

Finland's decision not to join the euro

Was Sweden's decision-making process on EMU better than Finland's. My impression is that the Finnish political process was much closer to the cynical economist's view than the Swedish one. There was a strong political consensus that Finland – for what is nowadays called geopolitical reasons – should tie itself closer to Western Europe and that joining the euro could help in achieving this. To me it seems that economic analysis, downplaying the risks of asymmetric shocks and exaggerating gains in form of low inflation, low interest rates and larger trade, was to a large extent used by politicians to justify a decision taken for other reasons.²

Recent labour market reforms in Sweden.

To provide an example of the more common situation where the cynical economist's view is correct I choose recent labour market reforms in Sweden. As in Finland, employment fell dramatically in the early 1990s. It did recover after 1995, but the recovery was slow and earlier employment rates were not restored.

All Swedish governments since the early 1990s have set higher employment as a main policy target. Among economists there has been a consensus that much of the unemployment has been structural and requires labour market reforms if one wants to address it. Labour

² See, for example, SRR 4/1997 rd or Stora utskottets betänkande 2/1997 över SRR 4/1997 rd.

economists also agree that lower unemployment benefits and the introduction of employment income tax credits raise employment (although this does not mean, of course, that all labour economists advocate such a policy). The conclusion is based on theoretical models as well as empirical research. The latter includes both *microeconomic* studies of individual transitions from unemployment to employment and *macroeconomic* studies of aggregate employment.³

But this is also a highly ideological area. In the Swedish social democratic party there is a strong value judgement that larger income disparities between the employed and the unemployed are unfair. This is, of course, a value judgement one can have and which is worthy of all respect. The problem is that this value judgement has often led to a denial that there could be positive employment effects of lower unemployment benefits and of employment tax credits.

I can give a few personal examples of that. When the new Swedish liberal-conservative government announced cuts in unemployment benefits in the autumn of 2006, I wrote a newspaper article where I tried to convey both theoretical and empirical results from the research literature. The next day I was phoned by a leading trade union economist who asked me what studies I was referring to. He was completely unaware of the literature. A few days later he published a newspaper article claiming that the methodology used in the studies he did not know existed a few days earlier was flawed and that there is no scientific basis for expecting benefit cuts to lower unemployment.⁴ The argumentation was based on selecting a couple of atypical studies that find no effects of benefit levels on unemployment and ignoring the large majority that does. The theme was picked up by the social democratic opposition and played an important – and in fact rather successful – role in their political campaign against the government proposals.⁵

Again, it is a perfectly respectable position that one may find cuts in unemployment benefits an unacceptable way of reducing unemployment. But it is a problem when politicians choose to confound their value judgements with economic analysis. I find the – oral – comments of a social democratic ex-minister in a debate on the effects of benefit cuts that I took part in particularly revealing. The ex-minister asked me the following question: “Don’t you realise

³ See, for example, OECD (2006) or Forslund (2008) for recent research surveys.

⁴ Mörtvik et al. (1997).

⁵ See, for example, Österberg and Hultqvist (2006) and Calmfors (2006).

that by taking part in the public debate you might influence the political decision-making?” His attitude – reflecting the cynical economist’s (as well as the cynical politician’s) view – was obviously that supplying a research input to the political process was an illegitimate intervention because it could lead to other decisions than in the absence of such an input.⁶

The above example should not be interpreted to mean that social democrats or trade unionists are more likely than liberal-conservative politicians or employers to conform to the cynical economist’s view of the relationship between economic research and policy-making. I could just as easily have picked examples from the other side of the political spectrum.⁷

Proper institutions for creating appropriate links between research and policy-making

In my view, proper institutions are key to making sure economic analysis is duly considered in economic policy-making. An important question is to what extent one should tie academic researchers to ministries, government agencies and so on as in-house policy advisers and to what extent one should set up independent bodies of economic researchers that provide a transparent research input into the policy process. I shall choose three Swedish institutions as examples:

- The Economic Council
- The Institute for Labour Market Policy Evaluation (IFAU)
- The Fiscal Policy Council

The Economic Council

The Economic Council of Sweden, consisting of six academic economists, was set up in 1988 to provide the Ministry for Finance with in-house scientific advice. A large part of the activities consisted of regular discussions with the ministry’s top civil servants (and sometimes the Minister for Finance).

My experience of the council was as chairman 1993-2001. Did the council have any influence on policy making? On the whole, I would say no. We developed very good relationships with the top civil servants, had very interesting discussions with them, and also nice meetings with

⁶ See Calmfors (2007) for a discussion of this attitude to economic policy-making.

⁷ A number of such examples from the EMU discussion before the referendum in 2003 are given in Calmfors (2003).

the minister. But it is very hard to find any traces neither on actual policy nor on the analyses behind policy proposals in the government budget bills.

This has made me very sceptical of this way of trying to integrate economic research (and researchers) into the political process. It suffers from the inherent weakness that (active) researchers have great problems in asserting themselves against other interests in the internal decision-making process in, for example, a ministry. To do that is just not the comparative (nor the absolute) advantage of researchers.⁸

The Institute for Labour Market Policy Evaluation

I am much more in favour of establishing independent institutions giving policy advice or evaluating policies. One such institution is the Swedish Institute for Labour Market Policy Evaluation (IFAU).

The background is the following. Active labour market policy has formed an important part of the Swedish model since the 1950s. These policies expanded vastly during the economic crisis in the early 1990s, when more than 5 per cent of the labour force was in various labour market programmes. For a long time, research-based evaluations of the programmes were almost non-existing. There did exist a body within the Ministry of Labour (EFA) consisting of academic economists, civil servants and representatives from the National Labour Market Board. But this body did not really make any policy evaluations; in my view it rather worked as a kind of “propaganda centre” for active labour market policy.⁹

In the 1990s, it became evident that labour market programmes did not work well. Academic researchers produced results that indicated large crowding-out effects on the macro level and very unsatisfactory results for individuals in terms of transitions to employment at the micro level. This led to more and more questioning of policies and led 1997 to the establishment of an independent government agency: the Institute for Labour Market Policy Evaluation (IFAU).

⁸ See also Ellingsen (2006) for similar views, partly related to the role of the Economic Council of Sweden.

⁹ This view is elaborated in Calmfors and Forslund (1993).

There is a general consensus that IFAU has been a major success.¹⁰ The office is producing a continuous stream of evaluations of various labour market programmes, using best-practice methods in the area. This has been possible because of the location close to Uppsala University's department of economics, which is the strongest department in Sweden in labour economics.

IFAU has chosen to do only strictly positive analysis of the effects of various labour market programmes, but gives no policy recommendations. This has rendered the office a strong reputation across the political spectrum and it gets very good media attention for its reports. Even without making recommendations, the reports appear to have influenced policy a lot, perhaps sometimes even a bit too much. A number of reports pointed to unsatisfactory results of the labour market training pursued in the 1990s.¹¹ This has certainly been a factor behind the recent reduction in the size of these programmes,

However, the reduction has probably been too large, as it is likely that the bad results of labour market education in the 1990s were due to special factors prevailing then: very large programme volumes, that participation in labour market training was mainly used as a requalification device for unemployment benefits and that it was hard to find expanding activities to retrain the unemployed for in a deep downturn. Evaluations for recent years, when these factors no longer apply, have shown much more positive results, but they may be affecting policies first with a considerable lag.¹² It is possible that this slowness of influencing policies has something to do with the choice not to make explicit policy recommendations, which can create some confusion among policy makers.

The Swedish Fiscal Policy Council

The last Swedish institution I shall discuss is the Fiscal Policy Council, which was established as late as 2007 and which I am now chairing. The council consists of six academic economists and two ex-politicians.

The council is an independent government agency with the government's assignment to evaluate whether especially fiscal policy, but also other economic policy, meets its objectives.

¹⁰ See, for example, Hjalmarsson et al. (2004).

¹¹ See Calmfors et al. (2004).

¹² See de Luna et al. (2007).

For fiscal policy this means long-run sustainability, but also that the government budget surplus target (of one per cent of GDP) and the government expenditure ceiling are respected, and that due account is taken of the cyclical situation. The council shall also evaluate whether economic developments are in line with sustainable high growth and sustainable high employment. Other tasks are to evaluate the transparency of the government budget bill and the quality of underlying models for the government's macroeconomic forecasts.

This is a wide-ranging remit. The main task of the council is to produce an annual report. We have so far produced only one.¹³ It contained a number of points:

- A critique that the government fiscal objectives are badly motivated.
- A critique of insufficient reporting of the financial situation of the public sector.
- A critique of unclear principles for under what circumstances fiscal policy should be used as a stabilisation policy tool.
- A critique of the lack of transparency of the calculations on long-run fiscal sustainability.
- An endorsement in principle that the current government's labour market reforms are likely to raise employment significantly in the long run, but also a critique that some reforms (especially of the financing of unemployment insurance) were carried out in a clumsy way where different policy measures have counteracted each other, giving the net result of a mass exodus from the voluntary unemployment insurance system.
- A positive appraisal of the government's attempts to base proposals on economic research in many areas, in particular employment policy, but also a strong criticism that these attempts have been highly selective: this applies in particular to the lowering of the property tax in 2007, where references to economic research were totally non-existent.
- A general call for much better reporting of the methods underlying various assessments of the effects of various government proposals.

It remains to be seen how much impact the Fiscal Policy Council will have. There was a lot of media attention when the first report was published. It was used as basis for a public hearing in the Finance Committee in the Parliament.¹⁴ In the government budget bill for 2009, there are clearly attempts to meet some of our criticisms, especially regarding reporting in various

¹³ *Svensk finanspolitik* (2008)

¹⁴ See Finansutskottets offentliga utfrågning om Finanspolitiska rådets rapport (2008).

areas and transparency of reasoning. When it comes to actual policy, there is a serious attempt to create incentives for those who have left the unemployment insurance to return, which was one of our major concerns.

My overall interpretation is that the Fiscal Policy Council has a much larger impact than the earlier Economic Council precisely because the recommendations are public and can create pressure on the government via media.

Main conclusions

The main conclusions from the personal experiences I have discussed are the following:

- A primary role of economic researchers in policy making is to help draw a clear line between value judgements and economic analysis. This is, of course, rather self-evident, but it can never be repeated too often, as politicians' incentives to confound analysis and value judgements in order to market their policies are often very strong.
- Proper institutions are key to making sure that economic research influences policy-making in an appropriate way.
- In-house policy advising by economic researchers often fails, because researchers are too uncompetitive in the political infighting inside the government administration.
- This is a strong argument for establishing independent bodies for public evaluation of policy by researchers who then influence policy not directly, but indirectly via the public debate. This also strengthens the position of in-house economic advisers, who are likely to be listened to more if there is regular and transparent outside evaluation of policies. So, outside evaluation may act as a complement to in-house advising, both raising its quality and giving it more clout.
- Independent outside institutions can gain credibility by sticking strictly to positive analysis and abstaining from policy recommendations. But making policy recommendations, also when value judgements are involved, is often desirable, because researchers are better than politicians at explaining when they build only on pure analysis and when they also add value judgements to the analysis. The reason is, of course, that researchers are schooled in doing just that. In fact, I believe it to be a very important task of researchers to provide pedagogical examples in the public debate of how one combines analysis and value judgements to reach a policy

conclusion. Many economists are afraid to do this. I think we should be more courageous.

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