

The Role of Research and Researchers in Economic Policy Making – Some Personal Reflections –

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Two main issues

- The contribution of research to separating value judgements from economic analysis in policy making
- Appropriate institutional frameworks for integrating economic research into policy making

Two polar views

1. The idealistic economist's view
2. The cynical economist's view

The idealistic economist's view

- Well-intending politicians with well-defined preference functions
- Eager to learn from research about economic relationships and trade-offs
- Researchers deliver the knowledge demanded
- Researchers manage perfectly to separate their own value judgements from the economic analysis

The cynical economist's view

- No genuine interest from politicians in economic research
- Politicians represent various interests and seek only to benefit their constituencies
- Systematic attempts to build only on research that supports the own position and to discredit other research
- Economic research should be self-contained within the academic system and no point of disseminating research to the political system, as it will just be misused

The cynical politician's view of economic research

- Economic research is not really a science
- Economic research is just a way of finding scientific justification for policies preferred on ideological grounds
- Such a view will reinforce the cynical economist's view

Swedish decision-making regarding EMU

- Swedish government commission in 1995-96
 - only academics
- Rare example of genuine interest in independent, research-based evaluation of policy alternatives
- Maximally favourable circumstances
 - genuine uncertainty about policy after economic crisis
 - no established positions on how to act inside the EU
 - not traditional left-right issue
 - split opinions within most political parties
- It takes such special circumstances for the idealistic economist's view to be correct

How should researchers deal with the relationship between value judgements and economic analysis?

- Purely positive analysis without policy recommendations
- Normative analysis with policy recommendations

Swedish Government Commission on EMU

- Clear policy recommendations could undermine credibility of economic analysis
- Analysis without clear conclusions is not taken seriously
- The political system needs help in separating economic analysis from value judgements

Our strategy

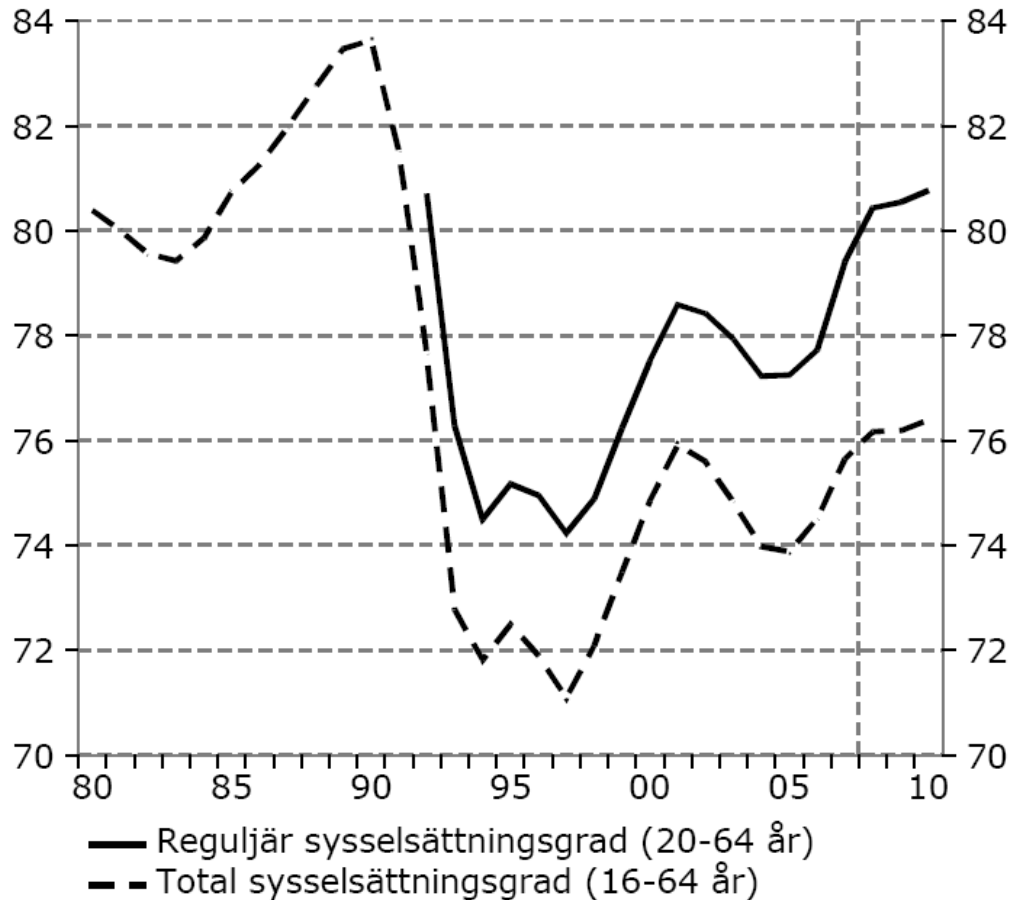
- Fair presentations of arguments in favour and against EMU entry
- Weighting of arguments in final concluding part
 - assessment of quantitative importance of effects
 - own value judgements
- Well worked-out **sensitivity analysis**
 - other value judgements
 - other quantitative assessments of effects
 - discussion of where the uncertainties are the largest

Better decision-making process in Sweden than in Finland?

- The Finnish process closer to the cynical economist's view than the Swedish one
- Political consensus that Finland should tie itself closer to Western Europe and that joining the euro would contribute to this
- The government to a large extent used economic analysis to justify a decision made on mainly other grounds

Diagram 127 Sysselsättningsgrad

Andel sysselsatta i procent av befolkningen i respektive åldersgrupp



Källor: SCB och Konjunkturinstitutet.

Swedish employment policy

- Higher employment key objective for all governments
- Consensus among labour economists
 - less generous unemployment benefits
 - employment income tax credits
- Theoretical models
- Empirical studies
 - microeconomic studies
 - macroeconomic studies

”Don’t you economists realise that you are influencing the process of political decision-making?”

The institutional framework

- Proper institutions are key to integrating economic analysis into policy making
- In-house advising or outside recommendations and evaluations from independent bodies

Three Swedish institutions

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

The Economic Council

- Established in 1988
- Six academic economists
- In-house advising in the Ministry for Finance
- Very little influence on policy and policy analyses behind government proposals
- Inherent weaknesses of in-house advising
 - researchers cannot assert themselves in the internal decision-making process within ministries and "executive" government agencies

The Office for Labour Market Policy Evaluation (IFAU)

- Active labour market policy has been an important part of the so-called Swedish model
- Almost non-existing evaluations till the early 1990s
 - "evaluation" body within the Ministry of Labour
 - rather "propaganda centre"
- Active labour market policy could not cope with the challenges in the 1990s economic crisis
- Need for independent evaluator
- IFAU established in 1997
- Location close to Uppsala University
- No policy recommendations – strictly positive analysis

The Fiscal Policy Council

- Established 2007
- Six academic economists and two ex-politicians
- Independent government agency

The Council's tasks I

- Evaluation of whether the government's fiscal policy meets its objectives
 - long-run sustainability of public finances
 - government budget surplus target
 - government expenditure ceiling
 - due account of cyclical situation
- Are developments in line with sustainable high growth and sustainable high employment
- Evaluation of the transparency of the government budget bills
- Evaluation of the quality of the underlying models for the government's forecasts

The council's tasks II

- No ex ante advising
- Only ex post evaluation
- Annual report

The council's first report

- Unsatisfactory motivations for medium-term budget objective
- Unsatisfactory reporting of the public-sector financial position
- Unclear what is the role of fiscal policy for cyclical stabilisation
- Lack of transparency of sustainability calculations
- Endorsement that labour market reforms are likely to raise long-run employment significantly
- But critique of the way reforms have been carried through: higher contributions to unemployment insurance has caused mass exodus from the system
- Positive appraisal of attempts at research-based policy
- But critique of somewhat selective choices of where to look for research support, especially lowering of the property tax
- Need for publishing more analytical background work

What impact will the council have?

- Remains to be seen
- More media attention than expected
- Public hearing in the Finance Committee in Parliament
- No criticism for being biased ex post
- Clear attempts in the recent government budget bill to meet many of the council's criticism
- Why? Because public evaluation has much more clout than in-house advising

General conclusions

- Primary role of economic researchers in policy making is to help draw the line between economic analysis and value judgements
- Proper institutions is key to make sure that economic research is considered appropriately in policy making
- In-house advising has serious limitations
- Independent evaluation bodies are necessary
- Such bodies can achieve credibility by restricting themselves to strictly positive analysis of economic relationships
- But normative analysis involving policy recommendations is often helpful
 - and researchers have a comparative advantage over politicians in separating economic analysis and value judgements