

Economic Science and Economic Policy Advice – a Problematic Relationship

Lars Calmfors

Symposium: Opening the Ivory Tower Wide

Swedish Collegium for Advanced Study

19 May 2022

The Problematic Relationship between Economic Science, Economic Policy Advising and Economic Policy

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Why a problematic relationship?

- Sharp ideological differences regarding economic policy
 - government versus the market (the private sector)
 - efficiency versus equity
- Economic policy involves conflicts of goals
- Economic research should analyse trade-offs
- Strong preconceptions among politicians and voters on the best policy on ideological grounds
- *Coherence seeking*
 - focus on research confirming stands already taken
 - research results used to support ideological positions
 - policy advising must fight this

Example 1: Swedish membership in the monetary union

- More trade and higher long-term productivity growth versus the risk of larger business cycle fluctuations
- What about average employment over time (equilibrium employment)?
 - no clear results according to research
 - yet, higher average employment over time was an important argument used by the yes side
 - short term association between growth and jobs over the business cycle
 - but no association between productivity growth and equilibrium employment
 - equilibrium employment is determined by the functioning of the labour market

Example 2: Active labour market policy

1990s

- Key part of Swedish model
- Overoptimism and overexpansion in the early 1990s
- Research on crowding out of regular jobs and poor results for participants
- Difficult to get (socialdemocratic) politicians to listen

Today

- Dissatisfaction with results
- Overoptimism regarding privatisation
- Research on better results for public than private providers
- Difficult to get (liberal-conservative) politicians to listen

Example 3: Minimum wages

- Lower minimum wages is a possible complement to other measures to raise employment of low-educated (immigrants)
- Difficult trade-off between higher employment and lower wages for some of those already employed
- Some U.S. studies indicate that high minimum wages do not harm employment
- Theory: the effect depends on how high minimum wages are
 - rises from low levels increase employment
 - rises from high levels decrease employment
- In line with this, Swedish studies tend to find negative employment effects of minimum wage increases
- Opponents of minimum wage cuts do not look at the most relevant studies

Example 4: Fuel tax cuts

- Fuel tax cuts undertaken now in most economically developed countries
- With unelastic supply, consumer prices will not be reduced
 - tax cuts increase demand
 - producers can charge higher export prices
- Politicians understand the argument but still compete in proposing tax cuts
 - politics trump sound economic advice

How should we give advice?

- Only publish in pure scientific journals
- Also publish in popular scientific journals
- Take up positions as advisers in ministries, public agencies and interest organisations
- Active participation in the public debate
- Participation in policy evaluation bodies
 - Fiscal Policy Council
 - Climate Policy Council
- Reports for government commissions and think tanks

Supply of economic-policy advice

- Long tradition among Swedish academic economists to engage in the public debate
- Strong focus of younger academic economist on pure scientific output
- Too little credit is given to dissemination of research
- Is economic science moving in the opposite direction to natural sciences?
- Close interaction with the rest of society is a precondition for research in social sciences of both high quality and high relevance