

*Making sure economists in the public service do more good
than harm*

presented at the Conference on Irish Economic Policy

Clarion Hotel, Dublin, Friday, January 27, 2012

Frank J Convery, UCD Earth Institute and
publicpolicy.ie

Content

1. publicpolicy.ie
2. Context
3. Being bright and well trained is not enough
4. Other qualities to seek and to foster
5. Priorities for action
6. Conclusion

1. publicpolicy.ie

publicpolicy.ie

established to provide policymakers and civil society with the best available evidence to help inform the economic choices we face.

Funded by Atlantic Philanthropies

Directed by Donal de Buitléir.

Priorities for 2012

- The distributional implications of budgetary policy;
- The budget and the quarterly troika reviews;
- Water pricing and property taxes;
- Pension reform;
- Governance.

Outputs

fiscal fact sheets, chairman's commentary which will appear bi-weekly, board commentaries issued periodically by some board members, research reports and associated working papers, policy briefs and critical analyses and reactions in relation to selected policies, budget proposals and reports.

2. Context

Minister for Public Expenditure has announced that the department will be hiring economists to support its work.

Richard Tol (ESRI) resigns

Raises question

What sort of economists should be hired by the public service, and what should they do?

3. Being Bright and Well trained is
necessary but not sufficient

Failure of 'best and brightest' in US – Meetings of board of Federal Reserve in 2006.

Timothy Geitner (then president of the Federal Reserve Bank of New York)

September 2006: *We just don't see troubling signs yet of collateral damage, and we are not expecting much.*

December 2006. *We think the fundamentals of the expansion going forward still look good.*

Janet Yellen (then President of the Federal Reserve Bank of San Francisco) in September: *Of course housing is a relatively small sector of the economy, and its decline should be self-correcting.*

And concern did not translate into action...

Ben Bernanke (who became chairman in March 2006) did express reservations:

I don't have quite as much confidence as some people around the table that there will be no spillover effect.

But he didn't follow this through with serious research into the issue that would have translated into policy change....

Why such professional failure?

1. Failed to join the dots, to link the performance of the housing market to the financial system.
2. Convinced that financial innovations, by distributing the risk of losses more broadly, had increased the strength and resilience of the system as a whole.

Keynes: *The ideas of economists, both when they are right **and when they are wrong**, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.*

3. Conflicts – real or implicit - of the pattern in the US of cashing in on public service by moving seamlessly from the role of regulator to regulatee and back again.
4. Confirmation bias and over-confidence – self regard and hubris

And of course there were local and
European versions...

given cover at the time by the complacent choirs
of the IMF, ECB, OECD and the ratings
agencies.

So qualifications from the best universities, and
being smart is not enough.....

What else?

Question

Would more 'banking economists' in ESRI, public service etc. have improved matters in Ireland?

Other Qualities

The ability to not only question the conventional wisdom, but to be encouraged to do so

May help to hire economists and apply them to areas that are not their specialism.

Example: Morgan Kelly (PhD Yale)

Highlighted the likely catastrophe of implicit in the Irish housing market, even though, as he put it: 'This isn't my day job. I was working on medieval population theory'

Don't depend *exclusively* on banking economists to inform policy on banking, housing economists on housing, agricultural economists on agriculture and so on; the outsider with the right intellectual framework who has the skill, credibility and self-confidence to question insider conventional wisdom can be invaluable.

The importance of persistence - Tol contribution

Institute did issue warnings about policy during the Ahern years, but did not do so loudly enough.

So persistence and associated noise is important....

A love of evidence

Where's the evidence? Should be the first question when investments, projects and programmes are proposed

And a willingness to look for it

And ability to find and synthesise the latest research (access to a university library is critical)

5. Priorities for action

Focus effort on where there is most likely to be payoff to effort:

- I. Barriers
- II. Unit costs
- III. Incentives/risks
- IV. History and ex post
- V. Polluter pays
- VI. Fairness

Identifying **barriers to performance**

What is the critical constraint?

Julius Van Liebig – founder of soil science (in the 1840s).

By the deficiency or absence of one necessary constituent, all others being present, the soil is rendered barren for all those crops to the life of which that one constituent is indispensable.

We need to be more like soil scientists....

The importance of unit costs

It's very hard to have an informed debate about expenditure when we don't know what things cost

credibly estimate the costs per unit (capital and operating) of delivering public goods and services .

Debate on incineration vs landfill – costs never mentioned.

And add accountants to the team.

Focus on incentives and risks

identify incentives and risks and who carries them associated with current policy and new policy choices

Such analysis applied to the disposal of the second mobile phone licence would have encouraged an auction and helped avoid the twin costs of direct loss to the Exchequer and judicial enquiry

Learn from the past

Sylvia Nasar: *Grand Pursuit: The Story of Economic Genius*
[Deckle Edge], 2011

Should be compulsory reading

Learning from the past is the first step towards good decisions

Lack thereof is big gap in evidence base.

Those who deserve commendation don't get it; those who deserve
excoriation escape it.

Undertake *ex post* analysis of policies already implemented

Apply the 'polluter pays' principle

Generates income and protects environment
and natural resources

Example: Performance of group water schemes
vs. the rest.

Add psychological/behavioural skills to the mix

Give fairness explicit attention
in assessing tax and expenditure options

Why?

Everyone thinks they are the 99 per cent

E.g. elderly vs. young

- will help defuse the 'we are all special cases'
syndrome.

Get out and about – avoiding the bunker mentality

Alfred Marshall spent 5 years meeting workers, leaders of enterprise and community, before developing his theories and their implications.

His subsequent analysis, rooted in evidence, has stood the test of time.

For water policy, visit the group water scheme at Ballycroy, County Mayo....

Be Porous

Open to 'outsiders' coming in, and

Go outside to osmose from others

Recruitment

Ask for evidence of performance and/or aptitude in these areas.

Get a written piece of analysis of real or hypothetical case and present to the interview board.

Work at educating the 'middle ground
of the public

And make all this information available to the
general public.

All the above will help ensure that the
economists we pay for do more good than
harm.....

Conclusions

Economists can do more harm than good *unless*:

They have the right 'non technical' qualities, and these are fostered.

They are focussed on activities likely to result in large payoffs to effort.

Thank You!

