# HOW ECONOMISTS SUCCEED (AND FAIL) TO INFLUENCE POLICY

Can economists do well and do good, asks **Stephen Kirchner**

I come to this topic having worked as an adviser to federal politicians, a financial market economist, an academic economist, and a think tank economist. Based on this experience, I would argue that the scope and potential for an economist to influence policy is generally greater in the think tank world than in other roles. Whether this potential translates into actual influence depends on a wide-range of factors that are not specific to think tanks. But think tanks are unique in the way they go about influencing policy.

Think tanks, especially philanthropically funded private think tanks like The Centre for Independent Studies, could not survive unless they were doing things other institutions were failing to do. The space think tanks occupy in public policy debate is one that has been left vacant by universities, business groups and other institutions that are constrained in various ways that think tanks are not.

The many constraints on academic economists are well known. Unless an academic economist's involvement in public policy is highly complementary with publishing in highly ranked journals, their public policy work is going to be a distraction from their career—and the opportunity cost of that involvement is too high.

This limits and even distorts the contribution that academic economists make to public policy debate. This problem was recognised as long ago as 1936 by William Hutt in his book, *Economists and the Public*. The way Hutt framed the problem was like this: no one is going to get published in a top journal restating the case for free trade. You might, however, still get published based on yet another variation on the idea of the optimal tariff—a theoretically interesting idea, but one that is difficult if not impossible to operationalise as public policy.

Hutt was concerned that because of the incentives they faced, academic economists were increasingly preoccupied with what he called 'curiosa'—and that this not only limited their practical relevance but also undermined their authority with politicians and the public. If this was a concern in 1936, it is an even more serious problem now.

If Keynes or Hayek were going before an academic promotion committee today, they would most likely be told: 'We see you've written some books, but what else have you done?' Writing books, even for a purely academic audience, is now a hindrance rather than a help to academic promotion in the discipline of economics. Academic success requires a singular focus

**Dr Stephen Kirchner** is a Research Fellow at The Centre for Independent Studies. This is an edited version of a talk he gave at the Australian Economic Forum, Sydney, on 19 July 2012.

on publishing articles in a small number of journals whose prestige is inversely related to their accessibility on the part of potential contributors and readers.

### Can economists do well while doing good?

It has to be said that not all academic economists succumb to these incentives. I have always been inspired by Gordon Tullock's essay, 'How To Do Well While Doing Good!' in which he exhorts academic economists to become more engaged with public policy. His argument is a classic cost-benefits analysis. While the private career benefits from public policy work are low, so are the costs, while the social benefits in terms of influence on public policy are potentially very large.

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Tullock's essay is also a cautionary tale, however. He wrote it in the 1970s and I think it is fair to say that in the period since he did not get the academic recognition his contributions deserved. It is not clear to me whether he enhanced his own influence to the extent that he followed this advice.

In his essay, 'A Plea to Economists Who Favour Liberty,' Dan Klein argues that, for academics at least, Tullock was 'disguising the facts to service the greater good':

> In the economics profession today, excellent basic public policy work cannot get published in leading journals, or even secondary journals. And the academic-career payoff to think tank work and general interest articles is, on average, probably not above zero. Such work can count negatively. It reveals that one is 'unfocussed,' 'not a scientist,' 'not a serious economist,' or, as establishment Democrats such as [Robert] Solow and [Paul] Krugman are quick to say, an 'ideologue' … When a young libertarian economist with publications in policy work or non-academic periodicals asks my advice, I tell him to remove such items from his academic vitae. Especially at the more prestigious departments, the optimal participation in public discourse (from a narrow career-interest perspective) is close to zero.

While Klein's judgement is almost certainly correct, this may change. Adam Smith argued that universities were 'sanctuaries in which exploded systems and obsolete prejudices found shelter and protection after they had been hunted out of every other corner of the world.' Smith understood that academics responded to the incentives given to them by the institutions in which they were located. It is likely that digital technologies will severely disrupt the existing models of both higher education and academic publishing and change these incentives for the better. The medieval guild-like structures and restrictive practises that sustain what Ronald Coase derisively calls 'blackboard economics' will likely be severely challenged. For academic economists, public policy work may be a good hedge against the demise of existing models of higher education and academic publishing.

Tullock's essay is still commendable because it is full of great advice on how to influence public policy and defeat rent-seeking interests in the public sphere. Think tanks were not as well developed in the 1970s as they are today, yet Tullock cleverly anticipates many of the strategies that think tanks now employ to influence public policy.

### Efficiency in ideas

So what is it that think tanks do differently? Fundamentally, think tanks represent new and more efficient ways of organising intellectual activity. If you want to be Coasean about it, you might say think tanks lower the transaction costs associated with intellectual activity relative to other institutions like universities. That's not a big hurdle to jump in a world where universities if anything raise the transaction costs associated with intellectual activity and misallocate human capital through their inefficiency.

So how do think tanks influence policy? It is certainly not the case that a think tank comes up with a new idea, issues a report, and the government changes policy. I wouldn't say that never happens, but it's rare. In that sense, we are no different from anyone else competing in public policy space, but we compete in different ways.

One of the ways in which we complete is by taking a very broad and long-term view of the transmission process from ideas to public policy. Hayek gave a very good account of these transmission mechanisms in his essay, 'The Intellectuals and Socialism.' His model borrowed explicitly from what he saw as the success of socialists in influencing the 'second-hand dealers' in ideas: journalists, teachers, clergy and intelligent lay people. He also argued that liberalism needed to once again become an intellectual adventure if it were to compete with socialism.

## Changing the conversation

It is primarily through changing the conversation about public policy that think tanks exert their influence. While this can be a somewhat slow and indirect channel, it can also be a very powerful one. Perhaps the best way to illustrate how think tanks influence economic policy is to give an example based on my own experience.

In 2011, my CIS colleague Robert Carling and I became concerned about the growing number of politicians calling for greater use of a sovereign wealth fund. What really intrigued us about this was that the idea was coming from members of both the Liberal Party and the Greens. What this suggested to us was that the idea of a sovereign wealth fund was something of an empty vessel, resting on unexamined assumptions, which meant virtually any politician could latch on to it. Our concern was not just that a sovereign wealth fund was starting to sound a little bit like motherhood in terms of its appeal to politicians, but that the idea was crowding out consideration of much more important policy ideas, such as reforming fiscal responsibility legislation.

We co-authored a monograph on the issue, *Future Funds or Future Eaters?* that sought to expose some of these unexamined assumptions. The report drew upon the work of a number of Australian and overseas academics who had addressed various aspects of this issue. Our contribution was to tie this material together into a more coherent and comprehensive treatment and make it accessible to a wider audience.

So what influence did the monograph have? We released it in February 2012, which proved fortunate because the governance of the Future Fund became an issue in March, something we had addressed in the monograph. We drew on some work by a Washington-based think tank, the Peterson Institute, that showed that the Future Fund ranked very poorly in international comparisons of sovereign wealth fund governance. Based on this evidence, the problems that emerged with the Future Fund board were not surprising.

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The media only became interested in the Future Fund when there was a personality conflict and a horse race they could report on, but since we had something to say about governance, we had an opening to inject ourselves into the discussion and say that the issue not was just about governance but more fundamental questions about what the Future Fund was for.

By the middle of March, the outgoing chairman of the Future Fund wrote an op-ed for the *Weekend Australian*, the first sentence of which read:

> During the past month, Australian public debate on sovereign wealth funds has taken a surprisingly cynical turn.

He went on to defend the Future Fund against these cynics who seemed to have sprung out of nowhere. This is a good example of a think tank changing the conversation. The idea of a sovereign wealth fund went from being something of a motherhood issue to one that was now suddenly controversial within a few weeks of releasing our monograph. Changing the conversation is not the same as changing policy, but it is a necessary, if not sufficient, condition for doing so.

It is also possible that by changing the conversation, we change policy in unobservable ways—for example, by pre-emptively steering policymakers away from certain policies. This is what we sought to do with this particular monograph. As Ronald Coase once observed, an economist only has to defeat one really bad policy idea to earn their lifetime pay many times over, even if these benefits accrue to the public rather than the economist.

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Coase tells the story of a University of Chicago law and economics professor by the name of Edmund Kitch going to Washington in 1971 to give expert testimony on the regulation of natural gas prices. This is how Coase described the reaction in Washington:

> Much of the audience consisted of Washington journalists, members of the staff of congressional committees concerned with energy problems and others ... They displayed little interest in the findings but a great deal in discovering who had financed the study. Many seem to have been convinced that the law and economics program at the University of Chicago had been 'bought' by the gas industry. In fact, the study had not been financed by any organisation ... but a large part of the audience seemed to live in a simple world in which anyone who thought prices should rise was pro-industry ... I could have explained that the essentials of Kitch's argument had been put forward earlier by Adam Smith, but most of the audience would have assumed that he was someone else in the pay of the American Gas Association.

This of course is the way many people perceive think tanks and I mention Coase's anecdote to demonstrate that think tanks are not alone in engendering this sort of reaction. It is possible to point to examples where whole fields of academic scholarship have been bought off by special interests. For example, the government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac were very effective in ensuring that most of the academic economists working on housing finance in the United States were receiving research funding from those institutions. This had disastrous implications for public policy development well documented by Josh Rosner and Gretchen Morgenson in their book, *Reckless Endangerment*.

Think tanks like the American Enterprise Institute, in contrast to certain Nobel Prize winning academics, were warning back in 1999, nearly a decade before the event, that the housing finance GSEs were a financial crisis waiting to happen and needed to be reformed. Legislation to do that was put forward by the Bush administration in 2004, but defeated by a Congress that was also in the pay of the GSEs. Did the AEI succeed in influencing public policy in this case? No. But there is a certain amount of influence that comes from being right about an issue—influence that no amount of public or private money can buy.

## Conclusion

My conclusion then is that think tank economists can successfully influence public policy in ways that generate very large social (although relatively meagre private) benefits at very low cost. While think tanks are to some extent still dependent on ideas generated within universities and academic journals, they represent very good value for money, especially for the marginal philanthropic dollar.