

# WHY ECONOMISTS SUCCEED (OR FAIL) TO INFLUENCE POLICY

Research findings get lost in translation between academia and public administration, argues **Peter Shergold**

I studied politics and American studies at university, and through the rigours of a doctorate at the London School of Economics, turned myself into a university lecturer in economic history. I never presented Economics 101 although I did on one occasion teach applied statistics for historians. Indeed, during the short rise and precipitous fall of economic history as an academic discipline, I rather fancied myself a bit of a ‘cliometrician.’ With economic historians in Australia finding their services no longer required by universities, I was fortunate to make a new career in the Australian Public Service (APS). It was serendipity.

In the two decades as a bureaucrat, my training in economic history—the ability to write coherently, count carefully, analyse methodically, and synthesise research findings persuasively—often came in handy. I hope that the Task Group on Emissions Trading, which I headed, exhibits some evidence of the application of these skills. Unfortunately, the so-called ‘Shergold Report’ will forever remain a minor if interesting footnote in Australian history. As I discovered first hand, sound economic arguments often founder on the rocks of party politics.

During my time in the APS, I occasionally spoke in frustration about how rarely academic research was able to exert a significant impact on the deliberations of government (see Stuart Macintyre, *The Poor Relation: A History of Social Sciences in Australia*). Since then, I have written more reflectively on how frequently relevant research findings get ‘lost in translation’ between academia and public administration (see my

article, ‘Seen but not heard,’ *Australian Literary Review*, 4 May 2011).

The more specific question I seek to address here is why economists who work outside governance institutions (particularly those who work in universities) generally exert so little direct beneficial impact on public policy decisions—or at least a lot less than I would prefer.

More particularly, in searching for a comparative benchmark, I wonder why does their influence appear more modest than that of medical scientists? It’s not just that health and medical research is typically better funded than the social services and liberal arts; it’s also that with some notable exceptions, such as Bruce Chapman’s design of an income-contingent loan scheme to fund university education, academic economists have wielded less influence on specific policy initiatives.

At first blush this seems odd. After all, debate on Australia’s economic policy settings is intense. It dominates political discourse. Rhetorically, at least, economists are sought



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after. Indeed, every Australian government today genuflects before the altar of 'evidence-based policy.' Never have the auguries been so favourable for economists ... and the outcomes so modest.

### The limits of evidence-based policy

One problem is that evidence is not neutral. I'm not just referring to the ever-present challenge of achieving academic objectivity. Rather I'm making the obvious point that the formative decisions on which policy evidence is to be collected and for what purpose are generally made by governments, influenced by confidential advice from their public servants.

To take a glaring example, the terms of reference for the Australian Future Tax System Review in 2008 were set before the committee of eminences, led by then Treasury Secretary Ken Henry, at their first meeting. Significant constraints were established. Most importantly, there was to be no consideration of increasing the rate or broadening the base of the Goods and Services Tax. Equally important was that the Commonwealth government made its decisions on how to respond to the review's 'findings' without allowing the committee, or its head, to present publicly the strategic intent of their arguments on tax efficiency. Evidence, as so often in the world of political contest, became a rationalisation for the promotion of one particular outcome, the introduction of a mineral resources rent tax—the implementation of which, as it happens, was misjudged and mishandled.

This is not an isolated incident. It is far from unusual for government officials to collect 'evidence' to support a policy proposition that is being pursued for political or philosophical reasons. Evidence becomes an *ex post facto* rationalisation of policy intent. We should not feign shock and disbelief. This approach is rather cruder than in academic life but not necessarily distinctive. Economists may be trained in testing null hypotheses with critical objectivity, but I can predict with a fair degree of accuracy the thrust of the conclusions to which the same evidence will lead many academics as well as politicians. Politicians, public servants and academics almost always never approach the collection or interpretation of evidence with a completely open mind.

The world of public policy, however, tends to make the process of decision-making more susceptible to politically focused 'evidence.' This makes it most difficult for outside economists, especially those in universities, to influence policy. Academia tends to perceive research methodology in linear terms. Questions are framed and conceptualised, existing paradigms synthesised, evidence gathered and analysed, hypotheses tested and conclusions derived.

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### The iterative nature of public policy

In contrast, the making of public policy is generally iterative in nature. Policy, as every good public servant knows, is driven by opportunity (often unexpected), moulded by political negotiation, and framed by compromise. As a result it's often perceived to be a world of second- or third-best outcomes, although my experience is that progressive modifications sometimes improve the original 'elegance' of the proposal. Policy generally has substantive intent but its manifestation and timing are often a consequence of the need to gather party and public support, to open up new areas of political differentiation, to divert attention from policy liabilities elsewhere, or to wedge the opposition. In a robust democracy, political leaders have only so much capital to invest in bold initiatives.

This environment, in which economic policy is progressively rewritten in response to political contest and media scrutiny, is one that senior public servants enjoy. They tend to focus on the details. They know that policy is only as good as the manner in which it is drafted and implemented. They will be excited by the prospect. It's a world that academic economists are reluctant to enter, for, as I have discovered in many conversations, they often perceive the process as rather tawdry and demeaning. 'I have published my research,' one respected university economist told me last year. 'I've reached my conclusions.

Governments can use them as they will. I'm not interested in compromising my results.' It was an entirely reasonable proposition, but nonetheless disheartening. Real influence requires deep and ongoing engagement and pragmatic flexibility.

The iterative development of public policy constrains even sources of economic authority within public administration. Beyond Treasury, the Commonwealth government funds a series of agencies that provide evidence—collecting statistical data, monitoring policy impact, and writing (or contracting out) research reports. The Productivity Commission is the best known and most influential independent research and advisory body, although we need to remember that the matters it investigates are commissioned by the government. Also important are the Bureau of Infrastructure, Transport and Regional Economics (economic analysis, research and statistics); the Australian Bureau of Agricultural and Resource Economics and Sciences (applied economic research); and the Bureau of Resources and Energy Economics (economic research, data, analyses and advice). Many of these institutions engage the expertise of outside economists directly.

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Yet such bodies are caught in the paradox of public policy. The more protected they are from government intervention and the more 'independent' their status, the less influence they are likely to wield over policy development. Conversely, even the publicly funded organisations that collect economic evidence but refrain from making policy recommendations frequently find themselves entangled in public policy debates at a cost to their authority.

I chair one such organisation, the National Centre for Vocational Education Research (NCVER). It's an independent not-for-profit company largely funded by a contribution from

each of Australia's governmental jurisdictions. It gathers an extraordinary array of authoritative data on skills training, both in-house and through funded academics, and produces research papers. It is intended to be a source of economic evidence and does not aspire to be a policy commentator. Yet much of the data—for example, on the level of training completions, the returns on investment in vocational education, or the relative scale and significance of the public and private VET providers—can have political implications. It is necessary to be sensitive to the political difficulties that NCVER's evidence may have for the governments that fund its operations—but to be so without forsaking the integrity that underpins institutional credibility.

### The value of economics

Economics is not just useful to policy development. Its methodological discipline can help evaluate the programs that are designed to make policy manifest. Unfortunately the costs and benefits of publicly funded services are often assessed far too narrowly. To take an instance in which I was directly involved, the net benefits of helping a person find work tend to be defined in terms of the cost of achieving employment outcomes (allowing for deadweight costs). More broadly, evaluation also recognises the positive effect that training and job placement have on workforce participation and—in direct financial terms—on increased tax revenue and reduced welfare costs.

The challenge, however, is to take a more holistic view and estimate the positive returns on paid work for the individual and the community, such as improved health, more stable housing, more functional families, and greater civic engagement. This approach is too rarely taken. As a result, the funding of programs is nearly always perceived as immediate expenditure rather than longer-term investment in improving pro-social outcomes.

I'd like to think that this is one area in which university-based economists could influence and improve public administration, but they rarely do. Unfortunately, the incentive structures of academic publishing tend to reward practitioners who undertake methodologically sophisticated but tightly focused analyses. Public servants

and academic economists have failed to lead in measuring the social returns on public investment. Much of the impulse for broadening evaluation metrics has come from the community sector.

### The limited role of economists

I do not wish to imply that outside economists completely fail as influencers of public policy. They do make an important contribution. As the 24/7 electronic news media seek to find ‘talking heads’ who can simplify complex economic issues into 15-second grabs, a network of ‘public economists’ has emerged as commentators. They influence policy through their ability to frame public discourse. While a few academics have risen to the challenge, Australia’s financial institutions have seen most value in having a corporate economist able to speak with public authority on interest rates, budget deficits, or sovereign risks. It helps brand the business as authoritative, engaged and reliable.

Academic economists influence policy in a variety of other ways. Many of those who write reports or head inquiries are often senior figures whose role as ‘public intellectuals’ blossoms near the end of their productive publishing careers. Many of their colleagues agree to serve on government advisory boards, councils, authorities or commissions. They add value to discussions. Their views can be influential. In most instances, however, their power to persuade is modest. Too often the policy decisions continue to be made elsewhere, with their own perspectives conveyed and assessed (or ignored) through the intermediation of public servants and ministerial advisers.

Similarly, making submissions to public enquiries, either directly or on behalf of an organisation, can be a disheartening experience. The drafting of a response may provide a useful vehicle for policy advocacy but rarely, in my experience, does it alter the fundamental approach to a policy problem. The danger is that elements of one’s evidence can be seized upon to give substance to a policy position in a manner that might not adequately convey the substantive thrust of the arguments presented.

Some academic economists also agree to undertake consultancy work for a government

agency, or more boldly, spend some time on a secondment. As a departmental secretary, I gained significant benefit from such contractual arrangements. Unfortunately, academics can often be left feeling chewed up and spat out in the process: They risk career progression by taking time out from academic publishing; their contract work is often subject to restrictive confidentiality arrangements, which slow and limit public presentation; and they do not always get the chance to argue for the policies they espouse in the meetings that count. At the very least, the measurement of academic research impact (the source of funding and status) needs to credit the contribution that university economists can make to the formulation of public policy.

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### The greater influence of medical research

Yet, as I discovered from feedback when I wrote on the cultural ethnographics and institutional dynamics that prevent academics from wielding greater influence on public policy, it’s not a universal picture. Many medical scientists emailed me complaining that I had grievously underestimated their influence. They emphasised how persuasive they had been and directed me to policy that bore testimony to the evidence they had marshalled. It was fair criticism. So why is health policy more open to outside influence than economic policy? There are at least three reasons.

First, medical data can often appear to be more—how can I say this gently—persuasive. To the public it seems more *scientific*. Doctors and nurses score high on public trust and so, I suspect, does medical research. Certainly such findings tend to be conveyed as cautiously optimistic: How many times in a week does one read, hear or view a news story about exciting research breakthroughs that may alleviate disease and suffering through improved diagnosis and treatment? Scientists have become adept at

promoting medical advances in a manner that attracts greater research funding, both from government and the community. By comparison, economics presents itself as the ‘dismal science,’ its practitioners emphasising how every economic circumstance that seems to presage a silver lining remains overshadowed by threatening clouds.

Second, medical researchers often find it easier to articulate the policy implications of their work into specific budget-circumscribed programs—access to IVP treatments, vaccinations for cervical cancer, or improved interventions for those with adult-onset diabetes. Interestingly, when it comes to using research to influence more wide-ranging policy initiatives related to the allocation of scarce resources or the promotion of well-being, the influence of academic researchers is less (but still greater, I think, than with economic policy).

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Third, medical research is strongly aligned with the interests of powerful sector and industry advocacy organisations, which harness academic research to enhance policy lobbying. The organisations that represent medical practitioners and pharmacists, and the Big Pharma companies that commercialise research, seem to wield greater aggregate policy influence than the disparate viewpoints of the Business Council of Australia, the Australian Chamber of Commerce and Industry, and the Australian Industry Group.

### **A cautious conclusion**

Economists influence public policy, particularly through their role as public servants (and not just in the governments’ central agencies). Indeed

it is suggested that their influence is pervasive. The so-called ‘neo-liberal agenda,’ which is associated with a decreased role for the public sector, is often ascribed by critics to the baleful impact of like-minded ‘economic rationalists’ within officialdom.

I do not subscribe to these criticisms. One can argue about the merits of government commissioning, and contestability—and, more generally, about the appropriate balance between the market and the state—but why would we not want public policy to be economically rational? It is true that many public service economists believe to varying degrees in free trade, competitive markets, and deregulation, but I saw little evidence in the Australian Public Service of dogmatism: On any particular issue, widely differing views were expressed on the value and benefits of state intervention and the form it should take.

Outside public services, the opportunity for outside economists to exert substantive influence are far more limited and too little seized. Don’t get me wrong. My faint praise of academic economists is not intended to damn them. The standard of community discussion and debate has been raised by the critical judgment of those who participate as public commentators. Their research can on occasion be of significant value. Their influence in quasi-official roles (sitting on advisory boards, serving on enquiries or engaging as contracted researchers to public sector agencies) is worthwhile.

Too rarely, however, do they have the opportunity or desire to be directly involved throughout the iterative processes of policy development. The unfortunate consequence is that the setting of Australia’s economic policies, including the pursuit of productivity-enhancing micro-economic reform initiatives, as well as cost-benefit evaluations of existing programs, is diminished. Whether that is seen as a failure or as limited success depends on the eye of the beholder.