

# School of Public Policy & Governance

## UNIVERSITY OF TORONTO

### **Getting Economic Analysis back into Public Policy**

Presentation to a Seminar on the Role of Economists in Public Policy  
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### **Has the gap between economic analysis and policy decision-making been growing?**

I would like to thank the Knowledge Impact in Society (KIS) project and the Johnson-Shoyama Graduate School of Public Policy for the opportunity to participate in this seminar.

Tom Shoyama and Al Johnson were legendary figures in Ottawa when I joined the Treasury Board Planning Branch in 1971. Shoyama was an assistant deputy in the Department of Finance, soon to become a deputy. Johnson was Secretary of the Treasury Board where he created the Planning Branch led by Doug Hartle, a renowned University of Toronto economist. Hartle was succeeded by Rod Dobell, who also came to Ottawa from the economics department at the University of Toronto. Shoyama, Johnson, Hartle and Dobell were stellar examples of highly trained economists who were intimately involved in policy decision-making.

I do not think it is just nostalgia that moves me to assert that there was a stronger connection between economic analysis and policy decision-making in those years than there is today. Policy analysts worked on issues with huge political and regional sensitivity. For example, the multi-year evaluation projects conducted in the Planning Branch included the Cape Breton Development Corporation, the dairy program, Atomic Energy of Canada, and Grain Transportation. Many considerations in addition to economic analysis had to be taken into account in the policy and spending decisions on these programs, but the analysis provided by the economists was sophisticated and politically astute. And, as those who knew Hartle, Dobell, Johnson, Shoyama and their colleagues could imagine, the advice to ministers was given in the best traditions of speaking truth to power.

Are there as many highly trained economists as intimately involved in policy decision-making in Ottawa today? There are excellent economists at all levels of the federal government. Indeed, many current deputy ministers, including the head of the public service, have advanced degrees in economics. But I believe there is now less demand for the kind of analytical advice that Johnson and Shoyama provided as deputies and, partly as a consequence, today's equivalents of Doug Hartle and Rod Dobell are not being recruited from university economics departments to oversee policy and program analysis.

### **Contributors to the gap between economic analysis and policy decision-making**

There are undoubtedly many reasons for the growing gap between economic analysis and policy decision-making. I will comment on those associated with the evolution of the decision-making environment and the evolution of the economics discipline.

## 1. The evolution of the decision-making environment

Since the 1970s there has been a decline in deference to elites and established institutions, and a proliferation of advocacy and advisory groups outside government. This is partly in response to what was seen as the failure of the “modernist project” – with its naive assumption that objective analysis by economists and other policy experts would minimize the role of politics in government decision-making. The Planning Branch was created during the very apogee of what Michael Moran has called “high modernism” with its “technocratic hubris, married to a sense of mission to make a better world” and “an overwhelming confidence in our ability to measure and monitor that world.”<sup>1</sup> The decline in deference is part of a long-term secular trend toward increased democratization of institutions and processes. It has been paralleled by a rise in populism and ideology as an explicit basis for decision-making.

The decision-making environment has also been affected by access to information legislation and the increased emphasis on accountability. The demand for transparency and for access to all manner of information – including draft material produced by policy analysts – has changed the way analysis is conducted and advice is transmitted. And one of the impacts of the handful of high profile ethical lapses in Ottawa has been a sharp focus on accountability and control. We are in danger of replacing the overly rationalist framework of policy analysis designed by economists with an overly rationalist framework of accountability designed by accountants.

These changes in the decision-making environment have altered the incentive structure for policy advisors. Officials have become more risk averse and more sensitive to how the media and interest groups might use isolated pieces of their analytical work out of context. This is an environment that is less attractive to leading university economists and an environment that makes officials more reluctant to give advisory responsibilities to outsiders less familiar with the nuances of government communications and risk management.

## 2. The evolution of the economics discipline

But even if the decision-making environment had not changed, how many economists are there in Canadian universities today with Hartle’s or Dobell’s policy-relevant skills and interests? I suspect rather few, because the discipline of economics has evolved. Hartle was a Canadian economist in the Harold Innis tradition. He was the founding director of the Institute for Policy Analysis. In the 1960s and 1970s political economy was a leading sub-discipline and it was academically respectable to focus on Canadian policy. However, like many academic disciplines, economics has become more specialized, more theoretical and more focused on international journals. There is a higher academic payoff in making a small non-jurisdiction-specific theoretical advance than in applying established precepts of the discipline to a specific policy in a particular place.

I have heard Canadian economists in their 30s and 40s say that they have been advised by colleagues to “leave that policy stuff” until they get older so they can devote their most productive years to getting articles published in the discipline’s most respected journals.

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<sup>1</sup> Michael Moran, Martin Rein and Robert E. Goodin, eds., *Oxford Handbook of Public Policy*, Oxford; New York: Oxford University Press, 2006 p. 3

In the 1960s and 1970s there were still many interesting theoretical issues of political economy to explore.<sup>2</sup> By 1980 much of the economic and political theory crucial to good policy analysis had been developed. Since that time one could argue that the most useful thing for economists to do to help policy decision-making is to rigorously apply these principles to specific policy problems.

### **Suggestions to reduce the gap between economic analysis and policy decision-making**

These changes in government and the economics discipline present formidable obstacles to reducing the gap between economic analysis and policy decision making. There are no magic solutions but I would like to offer seven suggestions.

#### 1. Public policy schools

The first is to build on the initiatives that have been taken by universities in Saskatchewan and elsewhere to create public policy schools with the mission of bringing economic theory to bear on public policy issues and training students to work on public policy. This will encourage policy-inclined university economists to devote more attention to policy issues and will provide students destined for the policy decision-making world with an understanding of economic fundamentals.

#### 2. Academic incentives

The second suggestion is to influence academic incentives through funding. In theory, this could be done by university administrators through internal resource reallocations to encourage interdisciplinary work and policy-relevant research. In practice, changes in incentives within the academy are greatly facilitated by external funding mechanisms. We see this with the KIS initiative. Governments could provide resources to fund teaching relief for economists engaged in policy-relevant work. They could provide resources for policy research institutes. They could spend more on contracts for policy-relevant research. Such expenditures obviously have opportunity costs and the pros and cons would have to be carefully considered. But governments do have tools to counteract what appears to be a long-term trend in economics toward more specialization and less policy application.

#### 3. Cross-disciplinary areas of economics research

There is interesting policy-relevant work to be done where economics overlaps with other disciplines. One example is happiness research. Researchers in behavioural economics are measuring the impact of non-monetary factors on decision making and their contributions to individual and societal wellbeing.<sup>3</sup> Political scientists are using comparisons of “subjective well being” (happiness) among countries to look at how this measure correlates with indicators of the intensity of the welfare state. Social psychologists and neuroscientists are broadening our understanding of the personal utility functions. These cross-

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<sup>2</sup> For a wonderful description of Doug Hartle’s scholarly contributions to this field see Rod Dobell, Evaluation and Entitlements: Hartle’s Search for Rationality in Government, pp. 79-108 in Richard M. Bird, Michael J. Trebilcock and Thomas A. Wilson, eds., *Rationality in Public Policy: Retrospect and Prospect, A Tribute to Douglas G. Hartle* Canadian Tax Paper No. 104, Toronto: Canadian Tax Foundation, 1999

<sup>3</sup> The literature on the economics of happiness is well summarized in John F. Helliwell, *Well-being, Social Capital and Public Policy: What’s New*, The Economic Journal, 116 (March), C34–C45, 2006 and Richard Layard, *Happiness and Public Policy: A Challenge to the Profession*, The Economic Journal, 116 (March), C24–C33, 2006. The literature on the psychology of happiness is addressed in Jonathan Haidt, *The Happiness Hypothesis: Finding Modern Truth in Ancient Wisdom*, Basic Books, 2006

disciplinary questions would seem to be a productive area for economists to add their insights and help with policy decision-making.

#### 4. University-government exchanges

Canadian economists do not seem to participate in exchanges with governments, advisory bodies and think tanks to the same extent as their colleagues south of the border. More effort on the part of governments and universities could be devoted to identifying the impediments to such exchanges and to creating incentives to facilitate them.

#### 5. The “third community”

Daniel Cohn,<sup>4</sup> a political scientist at York University, has suggested that one way of closing the gap between policy makers and academic researchers is to encourage the knowledge brokering role of the “third community” of analysts in government, research councils, consulting firms and think tanks who have one foot in the academic camp and one in the policy-making camp. He notes the role of the third community in a policy coalition that is able to advance the case for more than incremental policy change. Cohn suggests that the influence of economists and other policy experts on policy is substantial but usually not direct. He describes how a *school of thought* can coalesce into a new *policy paradigm*, which can provide the glue to unite a *policy coalition* to make a convincing case to policy makers when the alignment of environmental and political factors creates a *policy window* for change.

#### 6. Networking between disciplines and between scholars and practitioners

My sixth suggestion, which builds on the previous ones, is to provide tools to facilitate networking among disciplines within the university and between scholars and government practitioners. One example is the KIS project I am working on. Schools of public policy and public administration across the country, including the Johnson-Shoyama Graduate School of Public Policy, are collaborating in the development of a Public Policy and Governance Portal. The portal will identify and elaborate on the concepts and skills associated with a masters curriculum in public policy and administration. At the same time practitioners in government can use the portal to identify the key concepts used in their work. Interaction through the portal can provide scholars and practitioners with a better idea of which aspects of economics are most valuable for real-world policy analysis today. The portal will also provide a powerful platform for collaborative projects and policy networks. We hope to open much of the material on the portal to the public as an internet site in late 2009.

#### 7. Public outreach and education

My final suggestion relates to public outreach. Initiatives like the Public Policy and Governance Portal project and this KIS Symposium can help inform and engage people outside academic and government circles, including interested members of the public and the media. Over time, this could contribute to a government decision-making environment that is more welcoming of sound economic analysis.

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<sup>4</sup> Daniel Cohn in *Policy Analysis in Canada: The State of the Art*, Edited by Laurent Dobuzinskis, Michael Howlett and David Laycock. Toronto: University of Toronto Press. 2007, p. 603.