

**ECONOMIC POLICY IN THE PUBLIC SPHERE**  
**A Perspective from New Zealand**

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## Introduction

*“It is not easy to define what a professional “economist” is; and there is no sign that the problem of definition is becoming any easier. Consequently, it is unlikely that any one system of education will be suitable for all future “economists”. Moreover, regrettably for those who prefer straight sailing on a calm sea, economics is a rapidly changing subject and its practitioners are bringing forth each year a veritable flood of theoretical and empirical work....*

*Economists confronted by problems posed by Government or business, or seeking solutions to the difficulties in the society in which they are working, feel compelled to cross the traditional boundaries between disciplines or to explore topics which were not generally regarded as important or relevant topics for examination by economists...”*

Frank Holmes

These words appear on the first pages of the first article of the first volume of New Zealand Economic Papers in 1966.<sup>1</sup> Professor Frank Holmes articulates this clarion call for an expansive definition of the “economist”, and more than half a century later, the challenge persists. The focus of the economics discipline has changed over time, and remains in intellectual choppy waters. Or, to put things more technically, one might continue to ask: What is the appropriate production boundary of an economist?

Professor Holmes’ challenge is not just about economics, but also its application to policy. His service as the head of the Institute of Policy Studies was a testament to his mission to develop the craft. He did much to elevate the role of economics in public affairs, but always in a manner inclusive of the diversity of thought economics can maintain.<sup>2</sup>

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<sup>1</sup> Holmes (1966)

<sup>2</sup> Hawke (2012)

In this, his able ally was Henry Lang, Secretary to the Treasury between 1969 and 1977. Lang did much to forge the modern Treasury into an institution that injected economic thinking into public policy advice. But when reflecting on his tenure, he said: “in policy-making there is no such thing as a non-relevant degree and the main requirement is a first-class mind”.<sup>3</sup> This is a tradition that persists to this day, and the Treasury remains an organisation committed to hiring individuals that can apply economic thinking, broadly understood, to the task of public policy.

In this essay, our aim is to reflect on the uses of economics in policy in New Zealand, and offer a view on where it may need to develop in coming years. Our intention is to speak primarily to policy practitioners, by which we mean those involved in providing analysis and advice that contributes to debate about the direction of public policy. As one is reminded, these issues are perennial<sup>4</sup>, so we are aware this is only a perspective, not the perspective.

The motivation for this essay has been our passion for economics, its intellectual underpinnings and their historical development, its tools, techniques and rigour, its analytical insights and the contribution they’ve made to our understanding of the world we live in. Economics matters. It is foundational for public policy and as public policy practitioners we want to promote the discipline, support its development into new applications and strengthen its use across all public policy domains.

In our view, the foundational role that economics plays in public policy is strengthened when its insights are brought together with those from other disciplines, whether it’s anthropology, geography, neuroscience or psychology ,

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<sup>3</sup> Lang (1977)

<sup>4</sup> For instance, in the very second article in the first volume of NZEP, Tay (1966) responds to Holmes with advocacy for a narrower and more mathematical pedagogy for professional economists.

to list just a few examples. We don't see the use of such insights in economic analysis as revolutionary.<sup>5</sup>

Throughout this essay, we will develop two themes. One theme is that public policy needs economics. However, we stress the need to draw upon the true breadth of the discipline and be mindful of the ways that economics can be enriched by the perspectives of other disciplines. To appreciate this, we need to look to the past and the future of economics itself, and be mindful of some of its blind spots.

The second theme is that public policy needs more than just economics. Economies are embedded in societies and to be aware of this is to understand the strategic context for public policy. Public persuasion and storytelling aren't optional add-ons, but likely to be of increasing importance if economic advice is to be influential.

We start by looking out at the global debate on economics and its history, recently reinvigorated by a round of soul-searching ten years after the financial crisis. We then look inwards at New Zealand's own history of economics and economic policy, to see what lessons might emerge about changing currents of influence.

This sets the stage for our perspective on developing the practical toolkit for economic policy advice in New Zealand. And then we conclude with a discussion of how economics needs to engage with the changing demands and swirling eddies of the public sphere.

Our hope is that this essay makes a small contribution to the debate on how to enrich economics, promote its use, encourage its study and strengthen its

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<sup>5</sup> This type of thinking and analysis is promoted by recent Nobel Laureate Richard Thaler (2015) in his book *Misbehaving*, for example.

foundations. Great public policy needs great economics. And in the complex and rapidly-changing world we live in, it needs it more than ever.

## 1: Plural Traditions in Economics

There has been a resurgence of debate on the failures of economics in the international media.<sup>6</sup> No small part of this is related to the passage of a decade since the events that triggered the global financial crisis, which has come to be emblematic of the complacency of the profession.

These debates tend to take a repetitive form. The case for the prosecution is often simplified: economics, apparently, is about markets everywhere and always, operating flawlessly and unmoored from society. Defenders of the profession disavow this caricature, and stress the diversity in approach and practical insight that the economics discipline offers, when properly understood.

These exchanges are partly about methodology, but also partly about political economy. The sense of crisis in the profession has been attributed to a feeling that the discipline hasn't fully come to grips with its intellectual blindspots, magnified by the special status that it enjoys in public policy discourse. In response, one platitude in defences of the profession is that economics has a rich and diverse history. We start there and ask: In what sense is that history important to appreciate?

Despite first being taught economics some decades apart, we both were introduced to it by way of a particular framing of the 'economic problem'. This is the notion that society's fundamental problem is scarcity, and so economics is about how limited resources are allocated to their highest valued uses. This is sound advice, and an important enduring foundation for economic policy.

However, it is important to recognise that this approach has a particular provenance within the discipline. Lionel Robbins' famous definition in 1932 is

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<sup>6</sup> For instance, debates have been hosted in the pages of The Economist: <https://www.economist.com/finance-and-economics/2018/04/12/economists-understand-little-about-the-causes-of-growth> and Financial Times: <https://www.ft.com/content/670607fc-43c5-11e8-97ce-ea0c2bf34a0b>.

often taken as the classic articulation. He described economics as “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses”.<sup>7</sup> Robbins was arguing that there was a logical gap between ends and means and that judgments about the former required ethical commitments that lay outside the professional competence of economists.<sup>8</sup> In pushing economics further down this path, Milton Friedman’s methodological contributions were influential, when he argued that fruitful economic research should not focus on realistic assumptions, but rather predictive accuracy.<sup>9</sup> Overall, a technical and theoretical approach to economics grew over the second half of the 20<sup>th</sup> century, particularly in macroeconomics and its contribution to public policy.<sup>10</sup>

All of this contributed to a view of economics as a discipline aimed towards a quasi-scientific approach to the study of society. Quite self-consciously, economics became more wedded to the idea that it could provide technical guidance on how to improve society while professing to remain neutral on questions of social value.

It is always worth emphasising that this isn’t the only intellectual approach that can be discerned in the history of economics. For instance, another tradition places more emphasis on the way the economic activity is embedded into social and political structures. This is evident historically, even to the extent that what we now call ‘economics’ was previously known as ‘political economy’. Indeed many canonical names in the discipline write from this perspective – one thinks of David Ricardo, John Stuart Mill, and Karl Marx, amongst others. But this institutional focus is no dusty relic, and persists through the 20<sup>th</sup> Century Institutional School through to the current day. Notably, Douglass North and

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<sup>7</sup> Robbins (1932)

<sup>8</sup> Kumekawa (2017) and Backhouse (2009) provide accounts of Robbins’ impact on the rise of the ‘new welfare economics’.

<sup>9</sup> Friedman (1953)

<sup>10</sup> As Cherrier (2014) describes, the dominance of Paul Samuelson and the growth MIT economics department was important in these developments.



Elinor Ostrom won Nobel Prizes for work that places more emphasis on political and social governance than the notion of scarcity per se.<sup>11</sup>

The continuity of moral and psychological theory with economics is another tradition, both older and more current. Adam Smith of course, saw the wealth of nations and the moral sentiments as continuous fields of inquiry. It is only through more recent simplification that his writings have been taken to exemplify only market self-interest. In fact, Smith's long intellectual dialogue with David Hume underpinned the Scottish enlightenment tradition on using empirical knowledge about human decision-making and applying it to social improvement.<sup>12</sup> In many ways, the recent emergence of behavioural economics revitalises that older tradition. Its attention to the science of decision-making is often less concerned with abstract modelling and more with the discovery and application of social scientific knowledge to policy.<sup>13</sup>

There need be no mutual exclusivity between these different traditions in economics, of course. Different approaches can enrich and enhance each other. But this pluralism is important to keep in mind. It reflects an often suppressed diversity about the purpose and methods of the discipline itself. The distinctive methods of economic analysis continue to evolve and mutate, as we would expect of any intellectual discipline. The purpose of the discipline can be contested as well, and need to be considered in the wider historical circumstances of the time.

The ethical perspectives that are embedded within economic tools should not be forgotten either. It is no secret that everyday techniques like Cost-Benefit Analysis are based on propositions from welfare economics that make very specific claims about interpersonal distribution and how to compensate winners and losers from policy changes. One doesn't need to think very hard to

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<sup>11</sup> North (1993) and Ostrom (2009).

<sup>12</sup> Phillipson (2009) & McCloskey (2016) offer broader appreciations of Adam Smith's life and work.

<sup>13</sup> Kahneman (2011) sets out a framework, and Chetty (2015) shows how this can be pragmatically applied to policy.

recognise that there are some moral judgements being made here and it is not simply a neutral view from nowhere. Economists should do more to appreciate that there are other norms and values can alter one's perspective on how to analyse the world.

All this should give pause to claims that there is a cut-and-dried 'straight economics' that can be applied by policy practitioners. The choice of which types of economic models to apply to a given circumstance remains a craft.<sup>14</sup> Reflecting this sentiment, we think that it would improve economics itself to be a little more humble about its reach. Famously, John Maynard Keynes proclaimed that the skills of the master-economist should stretch to include: history, prose, mathematics, philosophy, and that "no part of man's nature or his institutions must lie entirely outside his regard".<sup>15</sup> This is an Imperial Vision of economics, one where it eventually brings all inquiry within its domain. But has economics lived up to this ambition? Some argue that it remains one of the most insular disciplines based on evidence of intellectual cross-pollination.<sup>16</sup> If true, then a legitimate question to pose would be whether economics, in its current state, should be given as much special status as it sometimes claims to guide policy advice.

At the very least, we think policy practitioners should be aware of some of the limitations of economics and more open to insights and techniques from other fields of learning. We will return to this theme later. Before that, we will take a look at what history can teach us about the influence of economics in New Zealand history of policy-making.

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<sup>14</sup> Rodrik (2015)

<sup>15</sup> The full passage is from a biographical essay on Alfred Marshall in Keynes (1933): "the master-economist must possess a rare combination of gifts. He must be mathematician, historian, statesman, philosopher - in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general and touch abstract and concrete in the same flight of thought. He must study the present in the light of the past for the purposes of the future. No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near to earth as a politician".

<sup>16</sup> Fourcade et al (2015)

## 2: Don't Look Back in Anger – New Zealand's History of Economics

Taking a step back from the global debate can be instructive. There are lessons to be learnt from New Zealand's own economic history, and the role that economic thought has had on policy over time.

The experience of economic liberalisation that occurred after 1984 tends to get the most weight in discussions of this sort. This is understandable – the events are most recent, the consequences are still with us, and the debates of time linger in the memory of many who are still active today in policy and research. But this can obscure as well as illuminate. Oftentimes, debate is overwhelmed by a desire for catharsis or vindication, either in stressing the importance and necessity of the reforms or in seeing them as an imposition of an imported doctrine.<sup>17</sup>

Over a longer historical arc, scholarship has emphasised a different story about the place of economic research and policy advice in New Zealand. This paints a picture of a New Zealand economics profession that grew over the 20<sup>th</sup> Century in its ability to develop pragmatic applications of international theory and empirics. In this section, we offer a very brief survey of some developments in New Zealand's economic history, to draw out how key episodes did or did not draw on professional economic advice.<sup>18</sup>

At the end of the 19<sup>th</sup> Century, New Zealand had been through a long recession after an expansion facilitated by expansive public works investment and immigration, associated with the overseas borrowing programme of Premier Julius Vogel. The voyage of the *Dunedin* in 1882, carrying its cargo of frozen meat and dairy products to England, is held as a marker of the start of the

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<sup>17</sup> Influential expositions of these opposed perspectives are Kelsey (1996) and Evans et al (1996).

<sup>18</sup> We draw especially on the general historical surveys offered by Millmow (2017), McAloon (2015), and McKinnon (2003), with more specific references in text.

refrigeration era and an economic transformation. It enabled a shift to a broader range of agricultural production and a long period of export-led growth.

The economic base underwent quite rapid transformation, and of note is the active role the Government played in directing this change. For instance, regulatory standardisation and scientific support was promoted by the newly formed Department of Agriculture, to underpin a safe and standard commodity for export.<sup>19</sup> Fiscal policy too supported structural shifts, whether through a progressive land tax or the extension of state supported credit, which supported the economic incentive to shift to smaller landholding, which was more efficient for intensive agriculture.<sup>20</sup> Later on in the 1920s, the New Zealand meat and dairy producers boards were to play an important role in marketing the notion of 'New Zealand' butter and lamb, critical in promoting the United Kingdom market for these exports.<sup>21</sup>

For our story, what stands out is the limited influence of what we would now recognise as economic policy advice in this era. The Treasury at the time was small, and in the process of developing its role as a fiscal control department, with an emphasis on accountancy as the professional base. There was no Reserve Bank. And academic economists had a limited role in shaping the political decision-making or public debate. Part of this reflects a different rhetoric around what 'economic development' was. As Gary Hawke has argued<sup>22</sup>, at the turn of the 20<sup>th</sup> century the modern concept of economic growth would not have been well understood, and instead the notion of building a society dominated the 'economic' agenda. As New Zealand dealt with the onset of the Great Depression and its aftermath through to the second World War, this began to change. Professional economists began to emerge as advocates for reform and economic advice began to grow its institutional roots in the public service.

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<sup>19</sup> Brooking (1992)

<sup>20</sup> The influence of economic policy on the transformation is explored in chapters five and six of Hawke (1985).

<sup>21</sup> Barnes and Higgins (2017)

<sup>22</sup> Hawke (2002)

The National Industrial Conference in 1928 invited presentations from academic economists, including Horace Belshaw and Allan Fisher. These papers notably argued for tariff reduction and their impact on import cost and efficiencies in secondary production which would become important and contentious in the Government's response to the economic crisis.<sup>23</sup> In 1932, a New Zealand Economic Committee was established to "to examine the economic and budgetary condition of the Dominion", and included the Treasury Secretary Alexander Park and four economists including Belshaw and Douglas Copland. Copland's presence was notable, as he became a leading advocate for devaluation having just argued successfully for the same in Australia as a macroeconomic stabilisation measure as part of the 'Premier's Plan'.

Eventually, the Government accepted this advice, against opposition from the Treasury who emphasised the fiscal impact, as this would increase the liabilities of the Government on its overseas debt. Fisher too, penned a furious 'dissent from Dunedin' which put emphasis on the extent to which these measures would not address underlying needs of a trade-dependent economy and that tariff reductions would be better in the long run.

This substantive exchange of economic views is notable. But disagreement was not always the watchword, as evidenced by the more general consensus in favour of creating a central bank in the 1930s. There were differences in view, with Gordon Coates as Minister of Finance establishing a privately-held Reserve Bank of New Zealand (RBNZ), and the incoming Labour Government in 1935 nationalising the RBNZ in its first act of parliament. Through these changes, the mandate of the bank remained broad: "to act so that the economic welfare of the Dominion may be upheld and maintained". The creation of the RBNZ was of course an act of policy itself. But it also created a new institutional home for economists and economic advice in the public sector. By contrast, the

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<sup>23</sup> Brooke, Endres & Rogers (2016)

Treasury through the 1930s remained focused on public finance and fiscal control, rather than economic advice of the kind we would recognise now.

However, Bernard Ashwin, as Secretary from 1939 to 1955 established himself in a position of considerable personal influence as an economic advisor to the Government.<sup>24</sup> This culminated in his personal Chairmanship of the Economic Stabilisation Commission from 1943, which built a strong political consensus around economic policy accepted by producers, workers, and Government.

The post-war period is now often represented of as a long period of not much at all, from the perspective of economic policy. A strong economy underpinned by a tight social compact is thought to have led to comfortable economic stagnation, which was disrupted decisively by the shocks of the 1970s and a series of policy mistakes that followed.<sup>25</sup> This view is tempting and commonplace, but too simple. The decades from the 1960s through to the 1980s were characterised by vigorous policy debate on economic diversification.<sup>26</sup> There was broad appreciation of the need for New Zealand to find new ways to underpin its high material living standards, but disagreement on the way to achieve this structural shift.

Of particular note are the intellectual approaches of the Treasury and the Department of Industries and Commerce. The former, under the leadership of Henry Lang, argued for export-led growth and diversification that went hand-in-hand with a broadening of our trading networks. The latter, under the leadership of William Sutch, prioritised domestic industrial development that reduced import reliance, as an approach that would lessen the foreign exchange demands of the economy, and so help stabilise the balance of payments.

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<sup>24</sup> Easton (2001)

<sup>25</sup> For instance, Belich (2001) gives an account which emphasises the impact of Britain's 1973 entry into the EEC on subsequent economic developments.

<sup>26</sup> McAloon (2013), Easton (2001).

All this debate did of course encounter the familiar headwinds of political economy. The international trading system and the domestic political consensus prevented change occurring as fast as it might have occurred. However, diversification of export commodities and markets did occur, through the terms of multiple Governments of either hue. Despite his contemporary reputation, it is important to be clear that even Prime Minister Robert Muldoon played a role in furthering this policy agenda, for instance in introducing a crawling pegged exchange rate, liberalising financial markets, and signing the Closer Economic Relations agreement with Australia.<sup>27</sup> Many of these policy initiatives were in concordance with official advice from the Treasury and the RBNZ. Appreciating these liberalising tendencies does not need to detract from the serious problems created by the 'Think Big' programme and the wage and price freezes in the period from 1981 – 1984.

With this history in mind, it is more difficult to hold onto a view that sees 1984 as some fundamental inflection point in the history of economic policy advice in New Zealand. As we alluded to earlier, this has been the tendency of both advocates and critics, but is much too simple. The challenges that were to be dealt with in the 1980s were not new, and part of an ongoing debate on the direction of economic policy.

It is inevitable that for a small trading economy, our policy choices are shaped by global forces and intellectual trends, of which we are a net importer. However, the economic policy advice that we develop in our own intellectual climate is not impotent. Challenges to the orthodoxy remain a wellspring of new ideas and new advice. And at various times in our past there have been constraints in political economy, limited institutional capacity to provide advice, or deep intellectual divisions between and within the communities of academic and applied economists.

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<sup>27</sup> This might sound like revisionism, but Muldoon's liberalising streak was recognised long ago by John Gould (1985), with McAloon (2013) providing a more recent assessment along the same lines.

These are historical continuities worth reminding ourselves of. We should be able to look back without nostalgia or derision at New Zealand's past and the role of economic policy advice in that process. Social and political conditions matter and interact with the growth of this practical economic knowledge. We should not be complacent if we want to retain an enduring place for economics in public discussion.



### 3: Economists' Toolboxes and Public Policy

*“It is natural enough for the practical man to complain that he asks for bread and the economist gives him a stone. But the answer of the analytical economist to such complaints should not be to fling away his tools....It should be rather to set about to elaborate his analysis so much that it can begin to be useful.”*

Joan Robinson<sup>28</sup>

Economics provides an essential toolbox for public policy. Every person, as well as every society, faces a challenge that there are limited resources to meet unlimited wants. Economics provides a way of thinking about alternative mechanisms for addressing this problem and so will remain foundational for policy advice. It can help to describe and manipulate data, use formal theory to give this data context, probe this information to test causation, and use judgment to develop models that can make recommendations for public policy.<sup>29</sup> While it is true that economic models involve abstraction and simplification, when done effectively this is a feature not a bug, and can help focus and test the empirical claims economics makes.

However, just as the discipline of economics has a pluralistic history, so too does the application of economics to policy. We should be wary of advocates for a closed toolbox, that can't be improved by drawing on different ideas, from inside and outside the discipline of economics itself. So in this section we ask where are some areas where policymakers might want to add to the intellectual toolbox of economics? We suggest three areas are worth particular focus: the nature of economic measurement, the opportunities offered by the use of extensive data-sets, and the role of institutions in long-term policy thinking.

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<sup>28</sup> Robinson (1933)

<sup>29</sup> Angrist & Pischke (2010) and Furman (2017)

In each case, we point out how economics itself will continue to provide insight. But we also stress the need to be more conscious and open to what other academic disciplines can offer.

### *The Measurement of the Economy*

The recent global debate on moving ‘beyond GDP’ is an episode in much longer tradition of considering how best to measure economic progress. Through the twentieth century, the invention and elaboration of the national income framework was critical in understanding the aggregate behaviour of economies. In many ways, this measurement enabled the development of macroeconomic theory that used these measures for conceptual reasons, such as Keynesian economics or the growth accounting approach.<sup>30</sup> Robust GDP measurement (and GDP growth) is foundational, not least because it is still the most reliable way to forecast the Government’s finances and to get a handle on the choices that policymakers have to improve wellbeing and productivity.

However, a live challenge is to confront the ways in which GDP may need to be updated or augmented to provide a better view of what matters. Some claim that our current measurement framework is likely to underestimate increases in welfare, pointing to structural changes in the economy, expansion in the quality and range of products and services, and in the blurring of the boundary between leisure and work in creative professions.<sup>31</sup> Others argue that there is no mismeasurement problem, and that in fact our traditional framework reveals that we should expect productivity growth to be slower than we have come to expect and aspire to over recent decades.<sup>32</sup>

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<sup>30</sup> Maddison (2004) is a sound historical survey of the growth of macromeasurement.

<sup>31</sup> Coyle (2014) and Mokyr (2018) are two representative accounts.

<sup>32</sup> Syverson (2017) and Gordon (2018) set out some of these arguments.

These debates about productivity and its measurement can be technical and arcane.<sup>33</sup> But they matter, because how we choose to measure the economy and society sets the terms for what 'prosperity' itself means in the modern world. This was the sentiment understood by Robert Kennedy when he famously articulated that GDP "measures everything...except that which makes life worthwhile"<sup>34</sup>. As economic policymakers, there is an urgent question about how to evolve our system of measurement so that it better reflects what citizens and consumers value, as these are essential to understand in order to design public policy.

It is obvious that in debates about economic measurement, the traditional approaches in economics and statistics will be a useful entry point. But they won't suffice. Since the underlying questions are ultimately about social value and human flourishing, policymakers need to be open to making connections with disciplines that provide alternative perspectives on these questions. These include social theory and the humanities, for instance, disciplines like gender and cultural studies which can critique the tacit assumptions that underpin the traditional view of the world embedded in economics.

A good example of how this can make a difference is to think about the challenge posed some decades ago by Marilyn Waring to the System of National Accounts.<sup>35</sup> Waring argued forcefully that we need to look again at how we measure the unpaid work, mainly done by women, that society values but does not adequately account for. Another example is to actively explore how alternate cultural worldviews might be integrated with established principles of economic policy design.<sup>36</sup>

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<sup>33</sup> Pell (2018) provides an accessible summary of the debates and its application to measurement of the NZ digital economy.

<sup>34</sup> Kennedy (1968)

<sup>35</sup> Waring (1988)

<sup>36</sup> O'Connell, Greenaway, Moeke & McMeeking (2018)

To be open to these perspectives may sound conceptually radical, and provoke some apprehension. But we contend that it is the natural consequence of being aware of the opportunities offered by broadening the boundaries of ‘traditional’ economic perspectives and, similarly, the limitations of keeping within them.

### *The Use of Data*

As we have explored, economics has long been interested in using empirical data to validate its predictions and theories. In reality though, up until a few decades ago, data was costly to acquire, took time to construct, and was limited in its scope. This reduced the ability of genuinely rigorous data and evidence to inform policy advice. Over the last decade in particular, there has been an explosion in the range and scope of data available to fulfil this ambition – in large part, as a consequence of waves of rapid information technology changes.

One prominent example is the better use of government data. By linking together administrative and survey data, economic researchers have been able to build larger databases which can be probed to generate rich observations about social and economic behaviour of individuals and businesses. New Zealand’s construction of the Integrated Data Infrastructure (IDI) has been a leading example of how this can contribute to public policy<sup>37</sup>, but this approach is growing in its prominence to shape policy debate all around the world.

There are plenty of less obvious examples where the application of datasets can have potential to provide fascinating new insights. For instance, the use of satellite imagery has generated new ways to study old economic questions, from agricultural and urban land-use patterns through to measuring aggregate economic activity by way of visible light emissions.<sup>38</sup> Another example is the use of expenditure survey data to correct top-down measures of inflation<sup>39</sup>,

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<sup>37</sup> For instance, McLeod (2018).

<sup>38</sup> A fascinating survey of this kind of work is in Donaldson and Storeygard (2016).

<sup>39</sup> A New Zealand example of the application of this technique is in Gibson and Scobie (2010).

techniques which have allowed researchers to verify claims as specific as the fact that a pork supply shock did indeed have a material impact on Chinese inflation which wasn't accounted for in the official statistics.<sup>40</sup>

These new analytical approaches can be dizzyingly complex, and we make no claim to be expert, or even amateur practitioners. However, the competence to be able to at least understand and interpret models and results will become critical for economic policymakers in the future. Its application can provide useful knowledge that can be used to test theory, estimate relationships, and track policy implementation. But use of these techniques also requires some circumspection; both in terms of the ethics of using the data and the pragmatic limits on what it can tell us. Familiarity with data science techniques should become part of a public economist's tool kit.

Of the examples we surveyed above, most come from researchers working in applied economics in its traditional form. But the core competence to analyse and interpret data is cultivated by many other disciplines, from the natural and physical sciences through to quantitative fields of social science, mathematics and computer science. Individuals with training in these fields can and should be sought out, not as an adjunct to a core of economists, but as people who possess a critical capability that can build and shape economic policy from the ground up.

### *Policy Institutions and Long-Termism*

It is commonplace in economic policy circles, or really any public policy, to lament short-term thinking and the inability to take the long view. It is easy to reel off a list of issues where better long-term and holistic thinking would be helpful. To name just some traditional examples, we worry about: the challenges of demographic change, the threats from a changing climate, the regulation of the global financial sector, and ensuring long-term infrastructure

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<sup>40</sup> Nakamura et al (2016)

investment. Potential reasons why the system may not pay these issues enough attention are also myriad: the political incentives, the media cycle, basic human myopia and uncertainty about the future (to name a few).

In short, it seems like we have a variety of potential long-term problems that we are held back from addressing due to a range of short-termist defects, a challenge that feels more acute as the pace of life accelerates. Yet many of the issues remain critical if policy has the goal of increasing wellbeing (or insert one's preferred end-goal) now and in the future. A traditional solution in economics has been to strive for the creation of 'independent' policy institutions, which can enjoy a degree of insulation from the politics of the day to focus on these pressing long-term issues.

While attractive, we think that this is too tempting as a general solution. Economic policymakers could benefit from thinking through these questions in a broader social perspective. One challenge that this trend confronts is that it can seem to put policy beyond the reach of politics. Indeed, in some way this is the goal, but the risk and fear is that this creates a technocratic state which can be perceived as exercising power under the control of a regulatory elite, walled-off from everyday political debate. There are risks in this state of affairs, and as recently argued by Paul Tucker "recent socioeconomic disappointment puts the consensus around delegated governance in an uncomfortable light.... it is not complete fantasy to see our democracies as flirting with a peculiar cocktail of hyper-depoliticized technocracy and hyper-politicized populism, each fuelling the other in attempts, respectively, to maintain effective government."<sup>41</sup>

The economy, society, and the environment are all complex systems that are constantly interacting with each other. The bigger, and more complex, the problems we face, the greater the temptation to tighten one's grip on decision-making. But this can be counter-productive and imply a predictive foresight that we are never likely to have.

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<sup>41</sup> Tucker (2018)

So sometimes the better response can be to devolve responsibilities for ongoing delivery, and invest in building capability in the devolved areas, packaged with very tight specification of outcomes to be delivered. In other cases, we might need a system that is more flexible and adaptive, and helps us look forwards without binding our hands to solutions that may not yet work as we planned or be widely understood and accepted.<sup>42</sup>

Public policy can help us navigate this complexity if it helps us learn and adapt to change with an eye on the future. But as policymakers, this requires conscious reflection. We don't think it is likely that it will just emerge from sound decision-making on a case-by-case basis. There is always a trade-off between implementing the best current policy frameworks, and developing new approaches to deal with future challenges.

In any case, we think it is clear that economics will be necessary but not sufficient to tackle problems of the future. Other disciplines are fundamental: from political philosophy, history and political science, through to law and institutional design. Policymakers trained in these disciplines don't just enrich economics but are needed to design policy for the long-term so that it can balance anticipation and responsiveness.

In this section we've laid out some areas where we think economics is evolving to allow policymakers to tackle issues of the day. We've suggested that a broader multidisciplinary approach would strengthen this evolution, and that this might change the policy solutions we generate. Sometimes, this might require prising open the economists' toolbox to make room for other cognitive gadgets, and we'd hope this does not meet too much resistance.

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<sup>42</sup> Boston (2017)

#### 4: Telling the Story: Economic Policy in the Public Sphere

*“Economics not only documents and analyses individual and collective behaviour; it also aspires to recommend better public policy.”*

Jean Tirole<sup>43</sup>

As we have already explained, it shouldn't be taken for granted that economics will always have an influential place in policy debate. It is important to nurture a public sphere for good policy advice to be heard and acted on. This section makes some suggestions about how the profession might go about this task. The previous section was about a framework for analysis; here we focus on a framework for discussion.

The dominant language and methods of economics are a good place to start. We have already introduced the idea that technicality is not all there is to economics. This should be as true for communication as it is for analysis. The rhetoric of economics is often cloaked in complex mathematical garb which can be a barrier to accessibility and understanding.<sup>44</sup> Successful popular economic advocates have long understood this, even when they are themselves highly technically accomplished.

The tasks of persuasion are skills in themselves, requiring attention to not just sound evidence but also building trust and appealing to emotion and values. There can, sometimes, be a tendency to look down on clarity and accessibility as the 'dumbing down' of difficult ideas. But, in fact, taking established research or new findings and translating them for a general audience is a service that economists would do well to invest in. For economists operating in public policy – and probably every discipline – it's essential.

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<sup>43</sup> Tirole (2017)

<sup>44</sup> McCloskey (1985) dissects the peculiar rhetoric of economics and Offer & Soderberg (2016) present an account of economists' quest for scientific authority.



If anything, doing this well can avoid the tempting error to present stylised findings of economic theory in a way that suppresses the limitations of those very same models. Dani Rodrik has pointed out this tendency with a focus on economists' public advocacy for free trade over recent decades.<sup>45</sup> He has argued persuasively that the profession has attempted to stress the net benefits of global trade as an all-encompassing argument in favour of globalisation, even though standard trade economics points to the distributional and transitional issues that can arise. This alternate view is now on its way to becoming a new orthodoxy on trade.<sup>46</sup> The more germane point for us is about preventing one or another extreme interpretation of research becoming mainstream.

Public persuasion requires humility from economists. Models can be useful and genuinely add to the understanding of social phenomena. But engaging as if they are quasi-scientific misrepresents them, and can create barriers to engaging with other experts and, when things go wrong, generate mistrust in the general public.

To take macroeconomics as an example, the reality is that there is a vigorous international debate on the state of the art and the debate is stuck in what we might call a 'Hamlet loop'. There is a sense that something is rotten in the state of macro, plenty of deep thinking about the thousand natural shocks that we've been heir to, and an utter lack of decisiveness about what we do next.<sup>47</sup> This debate will continue, and policymakers will need to follow its twists and turns. But in the meantime, it is important to be clear to the public that there is fundamental uncertainty surrounding our macroeconomic policy tools even though exposing this debate might be uncomfortable. It is in the interests of long-term credibility to be honest about the limits of our knowledge, rather than maintain a veneer of unearned confidence.

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<sup>45</sup> Rodrik (2017)

<sup>46</sup> Autor et al (2013)

<sup>47</sup> Makhlouf (2018)

We think that economists can do better by making their work more accessible and therefore more easily understood and scrutinised, so that it is then able to have influence on public policy decisions and outcomes. Technicality isn't a fatal flaw. But it is incumbent on those who build and push forward economic policy to ensure that it is open to the public who we work for.

Moreover, the demands for transparency are not going to abate. And we need to be aware of the distinction between formal transparency and effective transparency. Formal transparency might involve the publication of research and economic reporting that is of the highest professional standard. These are important (sometimes required by statute) and New Zealand typically does well on international measures of public accessibility to these documents.<sup>48</sup>

Effective transparency means going a step further, and making sure that the public can easily and genuinely engage with this kind of material. It requires more active effort, including timely consultation and translation of specialist knowledge. We think that taking this step is part-and-parcel of creating a shared forum for good economic policy advice to be heard.

All of this links back to economic narratives: we need to be aware that policy advice is shaped by stories. If our language and thinking doesn't resonate then we risk being overwhelmed by populist narratives. In the converse, we can help draw the right connections and furnish the language for a better public discussion. This is a challenge, but one we need to get to grips with. As Robert Shiller has pointed out the economy is impacted by "the spread and dynamics of popular narratives, the stories, particularly those of human interest and emotion, and how these change through time"<sup>49</sup>. Narratives can focus attention, mobilise motivation, forge and break social identities, and uphold social norms of behaviour and conduct.<sup>50</sup>

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<sup>48</sup> International Budget Partnership (2018)

<sup>49</sup> Shiller (2017)

<sup>50</sup> Akerlof and Snowder (2016)

Put more simply, ethics and values and culture matter. As we saw, in New Zealand's own past, economic advice is always embedded in these social and political conditions. If economics is to profess silence on normative issues, then that is even more of a reason to be mindful about how we apply its conclusions.

A core skill of the economic or public policy adviser is to understand strategic context. Creating a narrative helps to communicate that understanding and helps to build the case for reform. Telling an effective story is part of what we need to do well. And there's always a narrative, one that may be created by the main actors in a story, intermediaries like the media, or simply by political events. Vacuums are quickly filled. With the speed and reach of the internet and social media, the stories that fill the vacuum won't all be accurate or benign.

Moreover, narratives from elsewhere often make their way to New Zealand through the 'pathology of foreign paradigms'.<sup>51</sup> We sometimes have a propensity to take events from overseas and assume they apply over here. We risk misunderstanding something that's important, jumping to the wrong conclusions and making inappropriate decisions in response, instead of making a clear-headed assessment about whether the imported story matches our domestic reality.

Does this risk politicising the policy adviser? Perhaps, and a move in this direction requires caution. However, it also needs to be balanced with the recognition that the inherited institutional authority of the Public Service needs to be constantly renewed, and this can only be done in dialogue with the public it serves. One way of understanding the challenge is to see it as part of a policy agency's duty to develop a commitment to craft accurate New Zealand-specific narratives that help to navigate what's happening to the world around us.

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<sup>51</sup> Makhoulouf (2017)

This is not about simply unearthing facts and debunking falsehoods. It is about understanding how good policy-making is informed by and responds to context and history. Although it is an essential building-block, we do not think that economics, on its own, is not sufficient to build such an approach. Or, to put it another way, economics does it best when it doesn't do it alone.

## 5: Conclusion

In this essay, we have discussed the relationship between economics, economic policy, and public policy. The domains are separate, but highly interconnected. Economics is strengthened when it is brought into dialogue with other academic disciplines. Its application to economic policy requires some humility, and to make room for other perspectives. Good public policy will always need a foundation of economics, but it also needs a broader appreciation of the role of the policy advisor in a democratic sphere.

We want to encourage economists, and the teachers of economics, to welcome other disciplines into their realm. We want them to seize the opportunities offered by innovations in data science and technology and by the greater ease of access to evidence and research to fuel their intellectual curiosity so that they can support better public policy. And we would be delighted if all public policy practitioners – whether in government, in business or in civil society more generally – gained an understanding of basic economic principles and the insights that economics offers.

To end on a pragmatic note, here are six principles that we hope can guide policy practitioners, both in the development of policy and in engagement with the public.

1. Be clear about the social trade-offs that are embedded in policy decisions and frameworks;
2. Gather the best evidence possible, and be open to insights from a range of disciplines in collecting and developing that evidence;
3. Design policy tools and institutions so that they can evolve and change focus as we learn more about their impact.
4. Be humble and aim to persuade while being mindful of the risks of oversimplifying economic research;

5. Aim for effective transparency, to promote engagement with economic policy even by those who aren't experts in its methods;
6. Understand the global narrative, but create a local story.

Hopefully, these strike the reader as commonsensical. We make no claim to novelty, and hope that we have provided some motivation to adopt these principles by taking a more expansive look at economics. Perhaps though, we have left one definitional question unanswered, the challenge with which we began from Frank Holmes: what is a 'Professional Economist' and how should they relate to public policy?

Within the discipline, there is a thriving cottage industry on just this question. It is curious that economists tend to answer it by describing themselves in terms of other professions. Some say they should be like engineers, applying a body of science to the detailed design of markets.<sup>52</sup> Others claim they should be like plumbers, recommending some solutions but being willing to tweak and adapt them as they learn from how they work in practice.<sup>53</sup> Or perhaps they should be like physicians and dentists, confident enough to offer advice but not so bold that they try and make predictions with great accuracy.<sup>54</sup>

Frank Holmes, well-ensconced within this rhetorical tradition, evoked the metaphor of the sailor on choppy seas. This is a very local image, of New Zealand at the end of the world, looking outwards and buffeted by the global tides.<sup>55</sup> Our own suggestion is that economic policymakers in New Zealand think of themselves as 'weavers'. The challenge is to bring together different strands of evidence and intellectual frameworks, from wherever they might arise. These need to be woven into baskets that can hold and carry forward the

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<sup>52</sup> Roth (2002)

<sup>53</sup> Duflo (2017)

<sup>54</sup> Reis (2018)

<sup>55</sup> This imagery is employed more recently employed by Brian Easton (1997) in his narrative of New Zealand's post war economic history 'In Stormy Seas'.

policy challenges of the day. And these baskets need to make space to collect the rich public discussion that can inform better policy.

This is a creative and collective challenge but one that we believe New Zealand's economists and its wider policy community are poised to capture.

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