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## 14 Rapporteur's comments

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#### **Abstract**

Economics has always relied on data and evidence, and on ways of thinking logically about them. So the plea for evidence-based policy is directed elsewhere, at politicians and their advisors. Undoubtedly, evidence has influenced policy, often for the good. However, practical policy choice is determined by interests, political preferences and power, as well as by evidence. Strident calls for more 'evidence-based policy' can reflect a political naiveté; or can hide a claim that politics should be run by 'experts'; or can be a cover for the role of interests.

At this conference, we mainly heard two kinds of accounts. The first were histories of past successes or failures to influence policy through the application of evidence. The second were programmatic contributions, about how to bring more evidence to bear, or better evidence; or how better to interpret evidence. We also had some discussion of a third kind, about the broader frameworks within which policy does operate or should operate. I will direct some of my remarks there, using the standard approach of 'public choice'.

In summary, to whom is the plea for more evidence-based policy being directed, and with what expectation of reaction? I argue that the prime target cannot be policy-oriented economists, whose practices do not fall foul of the criticisms that Archie Cochrane directed at the National Health Service. Rather, the pleas for evidence-based policy are primarily directed at politicians and their advisors. To make such pleas implies the expectation of an effect; an expectation based on some theory of public decision-making processes, or of politics, in which there is an important role of experts. Political decisions create winners and losers, and economists are not expert in assessing the values of various alternative distributions of economic welfare. That fact may lead to a degree of disappointment: whereas top lawyers in Australia can get to make actual public policy decisions (as judges), top economists rarely do more than give advice to decision makers.

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## 14.1 Economists do use evidence

If you are confronted by a person who says ‘I support evidence-based policy: what about you?’, what response is there except: ‘Of course I support evidence-based policy’? It is an adequate reply, even though you may also think but not say ‘However, I need to know exactly what you mean by “evidence”, and what you mean by “based”’.

Unlike the common practice of medicine before Archie Cochrane, policy-oriented economics was not a craft occupation, and certainly not a craft that neglected to heed the evidence which could be made available for interrogation as to the efficacy and efficiency of craft practice.

Henry Ergas kindly provided me with the following from Cochrane’s 1972 book:

I once asked a worker at a crematorium, who had a curiously contented look on his face, what he found so satisfying about his work. He replied that what fascinated him was the way in which so much went in and so little came out. I thought of advising him to get a job in the NHS, it might increase his job satisfaction, but decided against it. He probably gets his kicks from the visual demonstration of the gap between input and output. A statistical demonstration might not have worked so well. (Cochrane 1972, p. 12)

From the fact that this conference had a splendid address about the Cochrane Collaboration in Australia, it would be wrong to infer that economists and other social scientists suffer from envy of doctors. Yes, doctors do decide; but rarely on matters of public policy. (I will return to this issue later.)

In contrast with what Archie Cameron criticised in medicine, economics has had a very long tradition of searching for confirmatory non-theoretical evidence, at least, and, at best, for crucial or decisive evidence.

Although I am much more familiar with economics than with other social sciences, what I know of sociology, social psychology, geography and anthropology suggests that the same is true: they have all had long traditions of looking at the factual evidence through some theoretical filter or other. Even political science has long had an empirical stream, and political philosophy is gathering and using evidence these days.

Thus, the plea for evidence-based policy is not aimed at policy-oriented economists in universities and the like. Economics has always relied on data and evidence, and a set of ways of thinking logically about them. Nonetheless, there can be virtue in preaching to the converted: it hones arguments to be presented later to the unconverted; and it helps to keep up morale (Harries 1991).

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As Gary Banks and Brian Head both stress in their conference contributions, policy decisions depend on more issues than those of pressing importance to evidence based policy-style economists. Economists and other social scientists, acting in their professional capacity, rarely get to decide anything of public importance. Top economists get the Nobel Prize; become secretary of the US Treasury, chairman of the US Federal Reserve, or governor of the Australian Reserve Bank, or enter other senior public offices; have rewarding careers on statutory bodies; become consultants; or hold prestigious university chairs.<sup>1</sup> But in the Anglosphere there are far fewer public decision-making positions for an economist-as-economist than there are for lawyers, who can aim at becoming judges, of which there are plenty. So maybe the conference needed a paper from the field — the law — that has given much thought to questions of admissibility, relevance and weight of evidence.

## 14.2 Interests matter

At the 2009 Australian Conference of Economists, John Siegfried made the Australian launch of a book that he edited for the American Economic Association, called *Better Living through Economics*. The book has 12 case studies in which economic research, according to Siegfried, ‘had a profound effect on our way of life and material wellbeing affecting income and wealth, as well as mortality, health, happiness, and welfare’.

The 12 cases are:

- tradable pollution permits
- price index reform
- antitrust reform
- matching physicians and students
- spectrum auction design
- airline deregulation
- welfare-to-work reform
- Earned Income Tax Credit
- trade liberalisation

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<sup>1</sup> Economists do find employment on various Australian statutory entities such as the Commonwealth Grants Commission (an advisory body, but effectively a decision-making one); the Australian Consumer and Competition Commission; the Australian Competition Tribunal; and wage-fixing bodies. Often, however, they generally share decision-making powers with lawyers. See Hughes (1980).

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- saving for retirement
  - monetary policy targeting
  - voluntary military force.

In many instances, the original impetus was largely theoretical. For example, Milton Friedman advocated a volunteer army in his 1962 book *Capitalism and Freedom*, using at best casual empiricism, but mostly through powerfully argued theoretical and moral cases. For tradable permits, the foundational theory was provided by Ronald Coase and amplified by William Baumol and Wallace Oates. For the policy of reducing barriers to international trade, the original theoretical ideas date back at least to David Ricardo.

Theory was important, but not trumps. In all but maybe one case, some kind of empirical evidence was essential for ‘selling’ the idea to policy advisers and to politicians, and even to the general public; for example, some trials or experiments were run before the matching algorithm was adopted widely in medical and other schools. At the other end of the spectrum, the change in default enrolment in pension funds in 2006, the impetus was, to a great extent, empirical not theoretical.

I want to make two points about these and similar ‘war stories’. The first is to reiterate that economics has long used evidence as the basis of policy recommendations.

My second point was signalled by my calling these ‘war stories’. During the conference we were treated to similar tales about the influence of evidence on policy making, but I found them largely unconvincing. I tend to view such stories through the ‘interest’ approach to politics, associated with Arthur Bentley and E.E. Schattschneider in American political science; and with the ‘public choice school’ in American economics. The basic public choice idea is that diffused interests, and especially those standing to gain little per person, will not be as effective politically as concentrated interests that stand to gain (or lose) much per head. However, all other things being equal, inefficient policies are less attractive politically than are efficient policies.

Siegfried’s selection is unabashedly of instances in which economic advice was taken—what could be called ‘merited victories’. However, we need to look at an unbiased sample of all cases in which evidence was tendered, which include ‘unmerited defeats’ (good ideas not adopted) as well as ‘unmerited victories’ (bad ideas adopted: living worse through economics?).

For ‘merited victories’, we need to entertain the hypothesis that interests played a major role even when evidence was allegedly decisive in a public policy decision.

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This does not mean completely ignoring the role of good evidence, or the roles of values, ideology and morality in public decision-making processes, but maybe giving them a weaker part than is played by interests.

To take an example of failure of evidence-based policy — the background paper for this roundtable details the three worthy goals of the National Drought Policy:

- encourage primary producers and other sections of rural Australia to adopt self-reliant approaches to managing the risks stemming from climatic variability
- maintain and protect Australia's agricultural and environmental resource base during periods of extreme climate stress
- ensure early recovery of agricultural and rural industries consistent with long-term sustainable levels. (DAFF 2007)

These goals were supported by a considerable quantity of relevant evidence. Yet the money went elsewhere: expenditure has predominantly been directed as emergency payments to a minority of farmers in perceived hardship, and to farm businesses meeting eligibility criteria.

One interpretation is that there is a political value in listing worthy objectives of this kind in legislation, to give some 'cover' for what the program is really about, which is 'emergency' relief. Did the minister keep a straight face when introducing the legislation? Did parliament really expect that traditional drought relief would be replaced by payments according to the objectives of the National Drought Policy? (Rural electorates — because of the relative homogeneity and greater salience of their economic interests — have disproportionate power in the Australian political system, compared to city electorates.)

If we entertain a model of public policy that is largely interest driven, what is the role for evidence about what is good for 'community welfare'? Does the provision of such evidence explain, for instance, the great neoliberal experiment of reducing Australian rates of border protection against imported goods? Similar policy changes were taking place in other countries, so an Australian explanation should largely be directed at the timing of the change, not the fact of it. Various kinds of Australian evidence were adduced against the protectionist policy. The first was that it was expensive to national economic welfare, and increasingly so: this fact counted against its continuation in Australia and internationally — the balance of interests was being upset. Secondly, evidence about the dynamics of the Australian labour market calmed some fears about mass unemployment following a tariff cut, and the government put in place some special forms of adjustment assistance. But maybe at least as important was the fact that one rural-based politician, Bert Kelly, convinced farmers that the system was largely against their interests.

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In his conference presentation, Bruce Chapman recounted the role of evidence in the introduction of university fees and the attendant income-contingent loan scheme in Australia. The evidence he cited mainly related to estimates of the average private and public rates of return from university study, and to the socioeconomic classification of university students. I can well understand how evidence of average rates of return can be used to justify university fees: Adam Smith would have approved. But we should look elsewhere for evidence to support a system of unconditional loans for student fees, with income-contingent repayments: presumably, evidence that promising potential students from low socioeconomic backgrounds had been dissuaded from enrolling at Australian universities for cashflow reasons, or would be, if they had to pay fees up front. (Forgone earnings were a much larger cost to the average student than were the fees being contemplated.) As far as I know, no such Australian (or other) evidence was adduced. Would it have mattered to the decision, if the evidence had been presented *against* the hypothesis of cash or credit constraints?

My point is that there is an alternative hypothesis about the use of evidence in this instance, namely, that Minister Dawkins wanted his educational revolution of a massification of the universities; that he knew that taxpayers would be very unhappy if they were told that they had to bear the full cost of the expansion of tertiary education; and that the Higher Education Contribution Scheme achieved the first goal without the second consequence.

### 14.3 Some win, some lose

What is being sought, through the campaign for evidence-based policy, is a stronger or wider role in policy decisions for experts in policy-relevant evidence. There seem to be two main targets of the campaign. First are politicians and their close advisors. Second are moralists, sometimes called ideologues. Of course, these two categories can overlap.

Maybe it is a good thing to preach to politicians and their advisors.<sup>2</sup> Presumably the purpose is to influence policy decisions. But policy decisions take account of matters upon which economists are not expert. Gary Banks wrote of the Australian experience that:

It also reveals the sterility of academic debates about whether evidence can or should play a ‘deterministic’ role in policy outcomes. It will be clear to all at this gathering in Canberra that policy decisions will typically be influenced by much more than

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<sup>2</sup> James M Buchanan argued that a sensible society ‘pays the preacher’ (including, possibly, bodies such as the Productivity Commission) (Buchanan 1994).

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objective evidence, or rational analysis. Values, interests, personalities, timing, circumstance and happenstance — in short, democracy — determine what actually happens. (Banks 2009, p. 4)

Although this quotation can be interpreted simply as stating a fact — namely, that values, interests and so on, do influence policy outcomes — I suspect that Gary Banks also had a normative intent: that some of these things should influence policy. (However, I also note that values and interests seem to be set in opposition to or cut across ‘objective evidence’ and ‘rational analysis’.)

It is useful to list three questions about public policy, the last of which I have already briefly discussed:

1. What works?
2. What is worth doing?
3. What is done?

Early in the conference, we were reminded of Tony Blair’s statement about being interested only in ‘what works’. This is a question of efficacy, a technical question to be answered by specialists or experts. We do need to know, however, what it is that ‘what works’ works on. In particular, a factual matter of great interest to politicians and their advisers is who gains and who loses, and how much: what works to improve the wellbeing and affiliation of a set of voters?

Jeff Smith memorably reminded the conference to not forget the ‘subscript *i*’: or, put otherwise, that it is unknown for a policy to improve the outcomes for everyone who is affected, more than some alternative. Therefore, someone or some group has to make an overall judgment: Is this policy worth doing?<sup>3</sup>

Typically, the economist’s solution is to employ practical utilitarianism — for example, cost–benefit studies, or computable general-equilibrium modelling — to decide what works to improve economic efficiency or community wellbeing. This presumes an answer to the second, normative question: namely, that improving ‘community wellbeing’ is worth doing. As a moral stance, utilitarianism is far better than many others that I can think of. But it is not the only respectable framework of normative evaluation, of a means of making an overall judgment about a policy that harms some interests or values, and helps others.

Utilitarianism is a consequentialist approach. In contrast, there is an important moral claim underlying Milton Friedman’s *Capitalism and Freedom* — namely,

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<sup>3</sup> For the use of the distinction between ‘reason for belief’ and ‘reason for action’, see Furedi (2009).

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that freedom is a value in itself, one that exists apart from the consequential benefits or costs that freedom brings and entails.

I suspect that there is no completely non-consequentialist defence of freedom (except as a matter of religious faith, as in ‘God wants us to be free’). But the main arguments about freedom — those that led to the change in the way that people were thought to relate to their rulers and state, and hence which led to democratic forms of governance and the rule of law — were moral, not factual or consequential: they were about the moral standing of individuals.

To take an extreme example, slavery was abolished in the British Empire not because it did not work, but because it came to be considered morally abhorrent.<sup>4</sup>

The moral constraint imposed by utilitarianism is that it approves only those changes that generate more gains than losses — all in terms of unobservable stuff called ‘utility’.<sup>5</sup> Australian democracy is thankfully not damaged by a tradition of ‘winner takes all’ after a general election. But that does not mean that our politics are based, or should be based, on a philosophy of ‘winner takes nothing unless it is more than is taken from the losers’. Utilitarianism involves a much greater constraint than imposed by the prohibition against ‘winner takes all’. Therefore, it is not the dominant ideology of politics.

## 14.4 Conclusion

Modesty, not stridency, befits economic policy advisers. I vividly recall the speech given by the then Treasurer, Peter Costello, on the occasion of the thirtieth anniversary celebrations of the Industry Commission/Productivity Commission. He reminded the audience that it was the politicians, not their advisors and academics, who took the bold, even heroic, decisions on microeconomic reform. Good ideas do not prevail in policy through a magical process of shining the light of truth into darkness. Rather, they have influence within a system that defines problems and agendas, selects from competing approaches, then crafts, implements and seeks to justify responses — and involved in all these steps are interests, political preferences and power. Strident calls for more ‘evidence-based policy’ at best

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<sup>4</sup> Can we base moral judgments solely on factual evidence? There is a group of moral philosophers who use laboratory experiments, surveys and natural and field experiments to investigate what some have called the universal grammar of morality. But the relationship between these empirical investigations and moral argument has yet to be agreed.

<sup>5</sup> In practice, economists selectively apply tests for economic efficiency: specifically, very rarely do economists take seriously the inefficiencies that the usual methods indicate arise from substantial redistribution. An exception is Mark Harrison (Harrison 2007).



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reflect a political naiveté; or, worse, can hide a claim that politics should be run by ‘experts’<sup>6</sup>; or, worst, can provide a smokescreen to disguise the role that interest plays, while simultaneously marginalising and delegitimising opposing viewpoints.

## 14.5 Coda: randomised controlled trials

This conference has ranged widely over types of evidence, from random assignments into treatment categories within a controlled environment, through natural experiments, through statistical analysis of panel data sets and other forms of econometrics, through computable general-equilibrium modelling, to theoretical propositions. A comment on those who hunger after medical-style evidence for the social sciences: despite Andrew Leigh’s paper, I remain convinced that Australian randomised controlled trials (RCTs) are destined to provide major inputs into relatively minor social and economic policy decisions.

Say we had conducted an experiment through some kind of RCT in 2007 to find out how people react to an unexpected gift of cash from the government: what determines what they spend and what they save and, if they save, for how long; also, what are the effects on taxpayers, if the gift is debt financed? I strongly doubt that this would have told us what Treasury policy makers needed to know, when they advised the Rudd Government on the stimulus package.

Or take performance pay for teachers in state schools. Say that we were concerned that lessons from US studies would not transfer well to Australia, in view of the US tradition of locally controlled public schools, so we wanted to test the effects of performance pay in Australia before it was considered for widespread implementation. We clearly could not run double-blind assignments of teachers to one form of pay or another. Therefore, some teachers would be selected randomly and informed that they would be eligible for performance pay; and others, not. The first hurdle is that any experiment would require the rewriting of the contracts of individual teachers or, at least, a renegotiation of their conditions of employment. Assuming that that hurdle were surmounted, I would still expect that union opposition to performance pay would greatly influence the outcomes, in unknowable ways (whether the random assignments were made within each school or across a state) (Donohoe 2009).

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<sup>6</sup> The most famous expression of a yearning for economists to be regarded as experts is J.M. Keynes’s ‘If economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid’ (Keynes 1931, p. 373).

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