

This is one of the last speeches of the symposium, which is somewhat of a challenge. But I still hope to have something to say. The announced theme is *Economic Science and Economic Policy Advice – A Problematic Relationship*. I proposed the topic myself, but it could have been formulated better.

It is not really the relationship between economic science and economic policy advice that is problematic but the relationship between economic science and economic policy.

New title

So, I revise the title to the *Problematic Relationship between Economic Science, Economic Policy Advising and Economic Policy* and hope no one protests.

Why a problematic relationship?

Why is this a problematic relationship? The answer is simple. Differing views about economic policy usually reflect fundamental ideological differences between on the roles of government versus the market, and of efficiency versus equity, or if you want economic incentives versus social insurance and low income inequality.

Most economic-policy decisions involve conflicts of goals. Knowledge of the trade-offs look is needed: how much does one have to give up in terms of one objective to better achieve another one. An important

task for advising is to present politicians and voters with research knowledge about these trade-offs.

This is the case *both* if one as an adviser just offers analysis of the consequences of various policy options *and* if one recommends a specific policy. Also when we recommend a particular policy, we have to give policy makers and voters a fair analysis of various effects so that they can combine that with their own value judgements when taking decisions.

The problem is that politicians – and voters – tend to have strong preconceptions of what is the best policy, more based on ideology and value judgements than on a balanced assessment of various effects. So when confronted with research they often are looking mainly for results that confirm views already held rather than taking in research that might cause them to revise their views.

Psychologists call this *coherence seeking*. Instead of forming an opinion by weighing together various aspects, people may focus on information confirming the stand already taken and discard other evidence. It is like one wants *all* research to point in the same direction rather than to acknowledge trade-offs.

For politicians, research results are often just one means of many to motivate policies they want on ideological grounds. It is a key task of policy advising to fight this and contribute to an unbiased interpretation of research. This can cause quite harsh confrontations

between researchers and politicians or representatives of organised interests.

I'll give you some examples.

Example 1: Swedish membership in the monetary union

The first is from the debate on the *adoption of the euro* before the 2003 referendum. There was a consensus among economists that membership in the monetary union would stimulate trade and long-term productivity growth but also involve a risk of larger business cycle fluctuations because we would no longer have our own monetary policy that could be adjusted to domestic conditions.

Another issue is if membership would affect *average employment over time, equilibrium employment* as economists put it. Here research is also clear: there are various mechanisms but none of them is likely to be very strong and they work in opposite directions, so not much can be concluded.

Yet, an important argument used by the yes side – in particular the Swedish Confederation of Enterprise (Svenskt Näringsliv) was that membership would raise average employment over time. They even presented numbers for how many jobs would be created in each part of Sweden.

This was complete nonsense from a research point of view. The argument was based on the correct inference that EMU membership

could stimulate long-term productivity growth, but it was then linked to the incorrect assertion that higher long-term productivity growth means higher employment.

It is true, of course, that higher short-term growth in the upswing part of the business cycle, when resource utilisation increases due to higher demand, is associated with more jobs. But long-term productivity growth instead depends on how effectively employed workers are used and is not related to the long-run employment level. The equilibrium level of employment is instead determined by how well the labour market functions.

Why was this erroneous argument used? The reason is simple: high employment is a very important issue for voters so promises to deliver it has always been considered vote-winning. But here voters were served incorrect arguments by politicians and interest groups. So it was a very important task for economists to point that out, irrespective of whether or not we were in favour of EMU membership.

Example 2: Active labour market policy

My next example concerns *active labour market policy*, measures to help unemployed to get jobs through matching activities, training or subsidised employment. Here attitudes have undergone a remarkable transformation over time.

From the 1950s to the 1990s active labour market policy was seen as a key part of the Swedish labour market model. The National Labour Market Board, AMS, was at the time regarded as an almost sacred institution.

Today, AMS successor, the Public Employment Service (Arbetsförmedlingen) is generally seen as a total failure. This is the motivation behind the privatisation of employment services that is now ongoing.

I have been involved in policy advising in this area both in the 1990s and more recently. During both periods, it has been very difficult to get politicians to base their decisions on research.

In the 1990s, the problem was *overoptimism* on what active labour market policies could do. This led to an *overexpansion of programmes*, during the crisis in the beginning of the decade, as much as 5,5 per cent of the labour force were in various labour market programmes.

Economists then pointed to research showing showing that the large programmes *crowded out regular jobs* at the same time as the results in terms of improving the participants' chances of getting such regular jobs were poor. But since so much political capital of the Social Democratic government at the time was invested in labour market policy, it was tough to question the wisdom of the policy. It took a long time for it to scale down the ambitions to more realistic levels.

Today, the problem is instead an *overoptimism regarding privatisation*. The Public Employment Service has not produced very good results. But the task is much more difficult than earlier as programme participants are today to a much larger extent made up of very weak groups – low-educated, foreign-born with weak skills and disabled.

The approach to solving this, adopted on the initiative of liberal-conservative parties, is to let private providers take over employment services. But there is no solid research evidence that this will work better.

On the contrary, randomised experiments comparing the efficiency of private and public providers in various countries suggest that private providers have been less efficient. It is, of course, possible that one could find systems that could make a privatised system work well, but that speaks in favour of experimenting with various set-ups rather than the complete one-shot transformation that is now occurring.

Many economists have proposed this. But it is difficult to get politicians to listen. The likely reason for this is that strong ideological beliefs about the merits of privatisation has trumped research.

Minimum wages

My next example concerns *minimum wages*. Some economists – including myself – have argued that lower minimum wages might be a

good complement to other measures to raise employment among low-educated in general and low-educated immigrants in particular.

One can have different views on this as it involves a trade-off between getting more non-employed into work and probably lower wages for some of those who already are in work. But this is not my point. It is instead the use of counterarguments, especially from representatives of the Trade Union Congress, LO.

They often refer to empirical studies in the U.S. that do not find negative employment effects of high minimum wages, and sometimes even positive effects. Such studies do exist, even though also most U.S. studies find negative effects. But my main point is that theory says clearly that the effect depends on the level of the minimum wage.

Increases from low levels may raise employment because it becomes more attractive to work, whereas rises from high levels should be expected to reduce employment because hiring becomes costly.

In line with this, empirical studies for Sweden – where minimum wages are much higher than in the U.S. – usually find that higher minimum wages do reduce employment. So, this is an example where an interest group chooses to look at studies showing results in line with the policies they prefer for ideological reasons rather than at the most relevant studies.

Example 4: Lower fuel taxes

Then my last example: the reductions in *fuel taxes* that are made almost everywhere now to compensate for rising fuel prices. Here economic theory is again clear.

With a rather inelastic supply of oil and gas in the world market, such tax cuts do not reduce the price for consumers. Instead, the tax cuts raise demand and allow producers to charge higher export prices – and earn higher revenues – than would otherwise be possible. This way the tax cuts help Putin finance his war.

This has been pointed out by economists. Politicians understand the argument. But they still compete to propose fuel tax cuts because again politics trump economics. The temptation for politicians to score political points among the electorate, where many are likely not to realise the complexities, are just too large.

How should we give advice?

I'll devote the rest of my speech to the issue of the best way to give policy advice. The *minimal way* is, of course, just to publish in *scientific journals* and then hope that conclusions are in the end disseminated via journalists and aides to policy makers.

It would be nice if this was enough. It isn't. The chance that research does not reach policy makers or reaches them in a distorted form is great. This holds for a broader audience as well.

Another way is to write in *popular scientific journals* which are more accessible than pure scientific journals. This is very important but also suffers from the problems I just mentioned, but to a smaller degree.

A third way is for researchers to take up positions as *advisers*, often in various *advisory councils*, within ministries, central banks, public agencies and even interest organisations to provide research input into policy. This establishes direct contacts with policy makers.

Does it work? Sometimes, sometimes not. My own experience has not been very successful. In the 1990s, I served as chair of the Economic Council, a group of academics advising the Ministry of Finance, and more recently I have been a member of groups of academic economists advising first Magdalena Andersson during the pandemic and now the current Minister for Finance Mikael Damberg.

My experience is that there can be good intellectual discussions with politicians in this form but that the impact on policy is small. Politicians often agree with your analysis in closed rooms at the same time as they are very explicit about political obstacles that constrain them.

There is also the risk that you get too cosy with the politicians when you have these closed-room discussions, so that one abstains from explicit criticism in the public debate. As an adviser, you have to be very aware of this risk.

I believe the most effective way of providing research input into the political process is for researchers to *engage very actively in the public debate* by writing op-eds, giving interviews, taking part in public discussions at various think tanks and so on.

Policy makers are much more influenced by research input when they have to relate to it publicly than only in closed discussions. This often requires researchers to get media interested, which is not always easy. It often requires very determined and repeated efforts.

One way of creating arenas where politicians are confronted with research input is to set up *independent evaluation bodies* for government policy, bodies tasked with public evaluation of how well a government achieves its own objectives.

I believe a good such example is the *Fiscal Policy Council*, consisting of independent economists (mainly academics), who in an annual public report evaluates how well government policy is designed to achieve long-run sustainability of public finances, to dampen cyclical fluctuations and to promote employment and growth.

Another example is the *Climate Policy Council*, which monitors the government's performance in the climate policy field.

These types of evaluations can lead to harsh confrontations with policy makers but also force them to take a stand on issues brought up in the evaluations. This is because such evaluations fit the media logic well:

journalists are often very interested in exchanges of this type between academic experts and politicians.

I have made rather sharp distinctions between different ways in which economic researchers give policy advice. There are, of course, also *hybrid* ways. A good Swedish tradition is that *government commissions* hire academics to write independent background reports.

There are also many *think tanks* commissioning reports by academic researchers. The think tanks may, of course, be biased in their choice of topics and of authors, but once work is underway researchers hired can usually work very independently.

A final point: good policy advising does not only require a demand for it. There must also be a supply. There must be sufficiently many researchers willing to engage in this way.

The supply of economic-policy advice

Prominent academic economists have traditionally played an important role in influencing policy: as advisers, as active participants in the public debate, and sometimes also as policy makers. I am thinking about names such as Knut Wicksell, Gustav Cassel, Eli Heckscher, Gunnar Myrdal, Erik Lundberg, Bertil Ohlin and Assar Lindbeck.

But I see a worrying tendency that younger economists focus almost entirely on pure academic output. Conversations among them seem

to focus more and more on which top journal they have published in than on the most relevant policy problems.

Many economists seem so worried that our science is not as well regarded as natural sciences that too much focus is put on proving our scientificity by moving away from more practical applications, dissemination of research, policy advising and participation in the public debate.

My impression is that natural sciences are rather moving in the reverse direction, taking public outreach and dissemination of research to a broader audience more seriously than earlier. If this is correct, it is an interesting contrast.

Anyway, I am worried that economic science gives too little credit to more applied research and activities of disseminating research. In the end, this could hurt also research itself. I strongly believe that close interaction with the rest of society is a precondition for research of both high quality and high relevance, especially in social sciences.

I end there. Thank you!