ESSAYS IN REGULATION

Dysfunctions in economic policymaking
Part I: simple stories, complex systems
and corrupted economics

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Preface

This essay is focused on ways in which complexity in economic systems is addressed in policymaking and in particular on the over-simplifications that frequently occur in assessments. In doing so it touches on a range of matters that are relevant to the central concern. These include the monopolistic nature of public decision making and the limitations that this entails, the tendency for private interests to achieve undue influence in the use of this market power, the induced subservience of economic reasoning to these interests (*corrupted economics*), and the institutional disorder that can be created as a result.

It is organised around three questions: Are there reasons to expect a *systematic* policymaking bias against giving due consideration to complexities and uncertainties in the evolution of economic systems? Does any such systematic bias matter much? If it does matter, can anything be done to improve policymaking performance?

The themes have some relationship to the *heuristics and biases* literature in psychology, relied on in behavioural economics and recently taken up by politicians and public decision makers as a potential source of new instruments for the conduct of economic policy. However, whereas the interest of decision makers is on the heuristics used by the public, the better to influence *individual* behaviour, here the tables are turned and the focus is on the *heuristics and biases* of the decision makers themselves in *social* contexts.

The themes are also related to issues surrounding the functions, purposes and effectiveness of economic institutions. The simplifications and corruptions under examination are often linked to an instrumentalist view of institutions in which the latter are seen simply as means of achieving relatively *specific* outcomes and in which the broader functions, purposes and effects of the institutions are ignored or neglected. Since the pressures of private/partial interests can be volatile over time, the instrumentalist approach tends to lead to increased instability and unpredictability in institutional arrangements, potentially undermining some of the cornerstones of effective economic systems and contributing to economic disorder.

The over-simplifications of interest tend to treat both economic reasoning and economic institutions as make-shift and disposable, an attitude that can be viewed as a failure of morality in decision-making systems: it signals lack of due concern for the interests of large sections of the public when the market power of the government is being exercised. Whereas political economy originally developed as an offshoot of the moral sciences, this older perspective has been largely lost in the instrumental pursuit of narrow policy goals and standards of conduct appropriate when exercising market power have not been maintained.

The essay argues for at least a partial restoration of the older perspective. A fuller appreciation of the complexities and uncertainties of economic activity points toward the structural remedy of limiting the scope of state action in order to reduce the influence of monopolistic processes on economic life, but attempts to move in this direction have to date proved largely ineffectual. The later sections of the essay therefore explore the possibility of conduct remedies, based on the proposition that more explicit standards of behaviour in exercising market power should be developed, monitored and enforced. There is at least a possibility that, by reducing the value of market power to partial and private interests, this might in time contribute to reductions in the scope of such power.

George Yarrow

Dysfunctions in economic policymaking Part I: Simple stories, complex systems and corrupted economics.

"The picture that I have formed of the *terribles simplificateurs* who are going to descend on poor old Europe is not an agreeable one ..." [1]

"In the economic sphere an act, a habit, an institution, a law produces not only one effect, but a series of effects. Of these effects, the first alone is immediate; it appears simultaneously with its cause; *it is seen.* The other effects emerge only subsequently; *they are not seen;* we are fortunate if we *foresee* them. … There is only one difference between a bad economist and a good one: the bad economist confines himself to the *visible* effect; the good economist takes into account both the effect that can be seen and those effects that must be *foreseen. ...* Yet this difference is tremendous; …" [2]

1. Introduction

Economic systems are complex and adaptive: their evolution over time depends upon an information set of enormous size, sub-sets of which are scattered among a large number of agents possessed of differing motivations, perceptions and resources, who interact in ways partly governed by sets of 'rules' (i.e. economic institutions) which themselves evolve over time. Developing understandings of such systems is difficult, and precise forecasting is usually impossible.

An economic policy change typically involves some or other type of perturbation of a relevant system. It may, for example, consist in setting the level of a particular economic variable or in setting a constraint on a particular variable, such as when a government fixes a price or sets a maximum price for a product or service such as water supply, or when it fixes the quantity of carbon emissions allowed under a cap-and-trade scheme for limiting greenhouse gas emissions. A policymaking arm of government rarely has direct and immediate control of prices or quantities, however, and particularly at higher levels of government policy change more often involves *a perturbation of economic institutions*: a regulatory agency might be set up to control charges for use of energy and water networks, or the statutory objectives of that agency might be changed.

Laws and regulations comprise part of the institutional infrastructure of an economy and it is changes to these 'official' or formal, public institutional arrangements that are most studied in

[1] Jacob Burckhardt, letter to Friedrich von Preen, 24 July 1889, in A. Dru, *The Letters of Jacob Burckhardt*, London: Routledge and Kegan Paul, 1955.
[2] The opening sentences of Frédéric Bastiat, *What Is Seen and What Is Not Seen*, 1848.

the field of political economy. There is, however, a much wider set of institutional factors that influence economic behaviours, including such things as customary practices, social norms and common understandings of how things are and of how people are expected to behave, whether the relevant conduct occurs in a market setting or within an organization. As shorthand I will refer generically to these other institutional factors as *commercial cultures*.

Such cultures are capable of having major effects on the performance of economic systems. Consider markets for example, which can be defined as social institutions whose purpose or function is to facilitate trading of products and services by reducing the transactions costs involved in exchange.[3] Market rules and their enforcement affect the confidence and trust of market participants, which in turn affect transactions costs – and lower transactions costs tend to imply higher volumes of trade. A sub-set of a particular market's rules may be determined by public policy, but other elements of the rules (the commercial culture) will not be and these latter elements will have implications for policy outcomes.

When a significant perturbation to formal institutions is made a number of things are liable to happen. First, the prices and quantities of products and services are likely to be affected, and the anticipation of such effects is often the rationale for the perturbation. Here there can be immediate and direct effects, e.g. legislation to establish a price control quickly affects the price of a particular commodity. Later will come more indirect effects. Thus, a statutory price control will tend, relatively quickly, to affect the quantity of a commodity that is bought and sold, and we are introduced to an immediate complication: the quantity traded may go up or down, depending upon the detail of the relevant factual context.[4]

More indirectly, adaptive avoidance, evasion or mitigation behaviours may occur. For example, in response to a price control we might over time see developments such as: the downgrading of the quality of the product or service supplied; effects on the prices and quantities of substitute and/or complementary products; effects on investments and innovations in methods of producing the product; and so on. Each of these changes is, in turn, capable of influencing the economic contexts that will be inherited by economic agents in future periods – most obviously when investment and innovation are affected – and hence of affecting economic conduct and performance in those later periods.

One way in which these wider effects are noted in economic theory is via the concept of general equilibrium. *All* of the prices and quantities traded in *all* markets are, in principle, likely to be affected by a perturbation to one or more of the contextual givens (the parameters) against which economic activity takes place. Put another way, a perturbation can affect all the endogenous variables (such as, but not limited to, prices and quantities) that are determined in

[3] Costs here refer to economic costs, which go wider than simply the monetary charges that might be incurred in exchange. They include, for example, the time taken in engaging in transactional behaviour and factors such as the risks of being deceived by a counterparty to a transaction.

[4] For example, fixing the price of a competitively traded product or service will generally reduce the volume of trade: if price is set above a market clearing level, traded volumes will be limited by demand; if price is set below market clearing levels, volumes will be limited by supply. In contrast, in the presence of strong market power on the supply side of a market, price regulation can increase the quantity of the product or service that is bought and sold. The reason is that the price control can potentially mitigate a pre-existing restriction of trade arising from the exercise of market power.

the course of trading. Although the implications of the point are generally ignored in practice, it nevertheless immediately indicates the immensity of the difficulties in trying to predict the consequences of policy change: even if policy makers had costless access to all the information available to individual economic agents (a hypothetical situation that is remote from reality) it would still be infeasible to perform the requisite computations.

Moreover, the perspectives offered by general equilibrium theories themselves greatly understate the complexities to be addressed, not least because they tend to rest on static and minimalist views of the roles performed by economic institutions. Such institutions are themselves endogenous over longer periods of time: they adapt and change in response to changing circumstances. Among other things, commercial cultures adapt to changes in laws and regulations (i.e. to changes in 'formal' or public institutions) and *vice versa*: very high customs duties stimulate smuggling cultures; constant changes to the policy-determined elements of a market's rules may undermine confidence and trust in the market; and so on.

Given these points, it should be standard practice in political economy that in all policymaking due consideration should be given to the great multiplicity of potential pathways of consequences of policy decisions, which is a necessary precursor to giving due consideration to the potential impacts of policy change on members of the public. Whilst precise, quantitative assessment of effects is generally infeasible, appreciation of the more indirect and diffuse consequences of public policy should be a central concern, not least to avoid Bastiat's "bad economics".

This usually does not happen in practice and whole categories of effect tend to be ignored or discounted in policy appraisals. Since the neglected consequences may be of considerable economic significance, the current, apparently widespread public perception that politicians and bureaucrats simply "do not care very much about the economic welfare of people like us" seems to be empirically well grounded. Whatever the rhetoric of policymaking, revealed behaviour in the form of an indifference to, or disregard of, potentially major economic consequences of policy actions can reasonably be interpreted as indicative of minds whose chief interests lie elsewhere.

As should be made clear by the discussion that follows, this is not a new problem, but the scope of perturbations to economic systems in the form of law making and public regulation is nowadays much more extensive than in earlier historical periods. Although the problem is a general one of political indifference (and hence of political irresponsibility), perhaps most eloquently put in Keynes's diatribe against the protagonists at the Versailles Peace Conference in 1919,[5] I will focus in this essay on an associated, more specific aspect of the phenomenon, systematic neglect of available knowledge and information that is relevant to assessing the consequences of alternative economic policies.

[5] *"The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizements, to the future enfeeblement of a strong and dangerous enemy, to revenge, and to the shifting by the victors of their unbearable financial burdens on to the shoulders of the defeated."* From *The Economic Consequences of the Peace*, 1919.

Indifference to certain types of consequences implies indifference to knowledge that casts light on those consequences and, once again, that is what we tend to find when we look closely at how economic policy is frequently conducted. Thus, following in the footsteps of a number of illustrious predecessors, Professor Ronald Coase[6] observed of public policy advice given by economists that *"... the state of the economy (both here and elsewhere) suggests either that the advice is bad or if good, that it is ignored. Of course, there is the other possibility, more disturbing from some points of view but reassuring from others, that the advice is disregarded, whether it is good or bad".* In exploring this indifference/disregard I will also examine a related tendency, the propensity of advice to be distorted in some way or other before (and sometimes after) it has been given.

More specifically, my focus is on attitudes to complexity and uncertainty, and in particular on the propensity to abstract from these typical characteristics of economic policymaking contexts. Whilst some degree of abstraction is inevitable – it is not feasible to trace out all the possible future consequences of an economic decision – there will generally be a point at which the neglect or disregard of relevant aspects of the decision context amounts to a failure of assessment. That is, reasonable norms or standards for assessment will have been breached in consequence of *over*-abstraction or *over*-simplification.

I will approach the issues by asking three questions: (1) Are there reasons to expect a *systematic* policymaking bias against giving due consideration to complexities and uncertainties in the evolution of economic systems? (2) Does any such systematic bias matter much? (3) If it does matter, can anything be done to improve policymaking performance?

2. A recurring issue: indifference to, or disregard of, the implications of complexity and uncertainty for economic policymaking

A degree of indifference on the part of policymakers toward the implications of complexity and uncertainty for the behaviour of economic and social systems is a tendency that has been noted by a diverse range of scholars. A few examples will serve to introduce one or two of the recurring themes, and some detail is warranted if only because, notwithstanding the intellectual stature of those who have identified the tendency, the implications of their views have themselves been subject to systematic (albeit not universal) indifference or neglect.

Adam Smith on the 'man of system'

In the Theory of Moral Sentiments Smith introduced the term *man of system* which, translated into today's language, might be rendered as a 'central planner':

"The man of system ... is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He

[6] R.H. Coase, "Economists and Public Policy", in *Essays on Economics and Economists*, The University of Chicago Press, 1994.

seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder."

Salient points to note here are an identified lack of any regard (a) for opposition to the "plan of government" and, of greater relevance for the current discussion, (b) for the likely behavioural responses and adaptations of free men and women to the implementation of the plan. The over-simplification is to treat the behaviour of human agents as no more complex than that of pieces on a chess board. It can also be noted that Smith answers my second question, 'does it matter?', in an unambiguous fashion: the *terribles simplificateurs* risk miserable performance and disorder.[7]

In the subsequent paragraph, Smith goes on to say that:

"When such imperial and royal reformers, therefore, condescend to contemplate the constitution of the country which is committed to their government, they seldom see anything so wrong in it as the obstructions which it may sometimes oppose to the execution of their own will. They hold in contempt the divine maxim of Plato, and consider the state as made for themselves, not themselves for the state. The great object of their reformation, therefore, is to remove those obstructions;..."

These paragraphs can be read as containing partial answers to my first question, by providing an account of the indifference to or disregard of complexity. At least some of the responses and adaptations of an economic system to the introduction of new policies will be seen as obstacles to the achievement of the goals of the planners/policymakers and, crucially, it is the planners' own (individual) goals and preoccupations that concern them most, not their duties to others. That is, the (monopoly[8]) power of the state is used serve the decision makers' own, *partial interests* (Smith's terminology) or agendas. More than that, where the planners are themselves sufficiently powerful (for example in Smith's time, because they exercised imperial or royal powers), it is argued that they will seek to remove the obstacles (to the advancement

[7] The language used here is strong and the point may be counterintuitive, but Smith is not arguing that government is a source of disorder in general, only that certain types of approaches to public policy can be so characterised. In contemporary terminology the argument might be framed in terms of tendencies toward the creation of policy/regulatory uncertainties arising from the difficulties in predicting how bad policy will develop once its flaws have become manifest in experience. However, there is a good case for use of the stronger term, disorder, since the lack of predictability in policy is, at bottom, an institutional dysfunction, and hence it is a threat/risk to the stability and order that well-functioning institutions bring to economic life.

[8] Here and elsewhere in this discussion the term monopoly is used in its contemporary economics sense, most clearly articulated in the enforcement of competition or antitrust law, to refer to a situation in which one economic agent has a dominant influence in a particular domain of economic life, where by dominance is meant a power that is both substantial and significantly greater than the power of other, relevant economic agents.

of their partial interests) raised by the operation of other institutions by, wherever possible, eliminating those obstructions.

Henderson and 'do-it-yourself' economics

In his Reith lectures[9], based on his own experiences as an economist employed by the UK government and the OECD, David Henderson identified the existence of a body of primitive economic thinking that he labelled "do-it-yourself economics" (DIYE). DIYE provided simple accounts of connections between events and of connections between actions and consequences. These accounts or stories/narratives occupied privileged positions in policy thinking, irrespective of their validity. Moreover, it was against this body of belief that any new economic reasoning chiefly had to compete, not against other economic reasoning of a more sophisticated nature.

Henderson's notion of DIYE is close to Bastiat's view of analysis that focuses on the *seen* or *direct* consequences of human actions, although Bastiat categorises this as simply bad economics, a point to which I will return later. It also has some similarities to the notions of the *conventional wisdom* and of *acceptable ideas* expounded by Galbraith[10], who argued that:

"To a very large extent, of course, we associate truth with convenience - with what most closely accords with self-interest and individual well-being or promises best to avoid awkward effort or unwelcome dislocation of life. ... . economic and social behaviour are complex and mentally tiring. Therefore we adhere, as though to a raft, to those ideas which represent our understanding."

Here we see the suggestion that what is going on is a substitution of convenience for the more effortful process of discovering that which is actually the case, masked by an insistence that there is little or no difference between the two. Thus, whereas the notion of DIYE uses a metaphor based on a distinction between professional and amateur economics, the notion of the conventional wisdom draws attention to a distinction between truth and convenience/utility in beliefs, and to the tenacity with which convenience is sometimes defended against evidence that threatens it.

Cannan on popular accounts of causes of substantial increases in prices

Smith and Henderson were concerned with a disregard for facts and consequences by decision makers; but similar issues arise in the ways in which the public approach economic reasoning, and these ways can in turn influence decisions via the weight of public opinion. For example, Coase quotes Cannan[11] on public perceptions of the causes of unusually large increases in the prices of some commodity or other:

[People] "are perfectly convinced that the rise with which they have to contend for the moment is unnatural, artificial, and wholly unjustifiable, being merely the wicked work of people who want to enrich themselves, and who are given the power to do so not by the economic conditions, . . but apparently by some absolutely direct and inexplicable interference of the

[9] David Henderson, *Innocence and Design*, Reith Lectures, BBC, 1985.
[10] J.K. Galbraith, *The Affluent Society*, Houghton Mifflin, New York, 1958.
[11] R.H. Coase, *op. cit.*

Devil. This has been so since the dawn of history ... but no amount of historical retrospect seems to be of much use. The same absurdity crops up generation after generation." [12]

The novel element of interest here is the reference to simple and specific human agency in popular accounts of the causes of higher prices. What are disregarded are the economic circumstances in which the action takes place – i.e. the possibly complex set of contextual factors that, at a given time, may be said to contribute to the higher prices – in favour of a simple narrative that ascribes the price hikes to the *discretionary* decisions of one particular set of economic actors, namely the suppliers of the service. Ironically, the actors who are demonised are precisely those people who, by supplying the market in a time of shortage, may be contributing most to keeping the price of the relevant commodity down.

This simplified economic narrative can be characterised as melodramatic in that it relies upon exaggeration and simplification with the purpose of inducing exaggerated, emotional responses from the audience/listener/reader. The intention is therefore not to inform, educate, understand or engage in a process of learning or discovery; and it is this intention/purpose that most distinguishes this type of unhelpful simplification from, say, an economic debate in which protagonists may each be relying upon simplified analyses, but in which the *common* purpose is the advancement of understanding and knowledge of how economic systems work.

Behavioural economics and the psychology of decision making

Since Galbraith wrote of the conventional wisdom and following the pioneering work of Kahneman and Tversky, psychological research on decision making and judgment in conditions of uncertainty has developed much more solid empirical foundations for examining the causes and implications of the propensity to resort to convenient simplifications in decision making. Much of the recent interest of policymakers in this body of work has been on how to use it in a 'man of system' sort of way, since the approach appears to offer government the prospects of finding better ways of manipulating Smith's pieces on a chess board. I suspect, however, that this particular set of impacts will be limited by the adaptability in the responses of those targeted, and that its more radical implications may eventually lie elsewhere, in assisting in the development of less dysfunctional policy processes.

Kahneman distinguishes between 'fast' and 'slow' thinking, linked to two notional systems of the brain that he calls System 1 and System 2. System 1 operates with quick heuristics, often sub-consciously and with minimum fuss. Among other things, it retrieves information that is readily accessible in memory, and uses it to help impose rapid coherence in thinking about

[12] In the light of later discussion in this essay Cannan's rhetoric seems a little overblown. Irrespective of the particular factors leading to a context in which high prices are set it remains the case that (a) suppliers can set high prices, (b) they are not compelled to do so (every supplier is free to supply at a below market-clearing price), (c) the consequence of higher prices is a redistribution of economic resources away from buyers, and (d), where the price shocks are severe and the products loom large in the budgets of buyers, the redistribution of resources may have a significant effect on living standards. Given (b) and (d), it is unsurprising that those adversely affected by high prices will tend to complain. Cannan is, of course, right in the sense that, if sellers in a competitive market held prices below market clearing levels (motivated by compassion for their customers, say), the consequences for buyers as a whole would not be universally positive: on standard arguments, for example, some buyers might then not be able to secure any supplies of the product at all. However, the ethical issues are perhaps more subtle than Cannan implies.

questions posed. It can create immediate, simple 'stories' based on very small scale networks of connections, most frequently a single connection between one thing and another (i.e. Bastiat's immediate or visible effect).[13] System 2 comprises more effortful thinking that is brought to bear when more difficult cognitive challenges requiring more focused attention are posed. It is more reflective and deliberative and it is capable of telling more complicated stories encompassing wider sets of facts, events and connections.

Kahneman refers to System 2 as being 'lazy', but as he himself recognises that may be a storytelling over-simplification in itself. If attention is effortful and in limited in supply relative to the potential demands on it, it will need to be rationed, even by non-lazy minds. What appears as laziness may, therefore, be conservation of resources for use in other, higher priority activities. This is not to say that lazy minds don't exist: it is simply a caution against over-generalisation.

The demand for simple stories at the quotidian, individual/personal level is a function of their low cost/price relative to complex stories that require more in the way of effortful attention or concentration. It is also associated with their entertainment value. Stories are told not just to provide accounts of events, but also – even where they are intended to be exercises in non-fiction – to entertain.

3. Preliminary discussion

A number of points emerge from this brief *tour d'horizon* of potential problems in the use of economic analysis in policy-making processes and assessments. The first thing to note is what these examples are <u>not</u> saying. The issues raised are not to do with straightforward irrationality in decision making processes. Academics in particular are prone to ascribe the failure of policymakers to adopt particular policies to irrationality, but, whilst policy processes do frequently have irrational aspects, this is not, I think, the main problem to be addressed.[14]

Rather, the common theme running through the concerns is the relative *indifference* of policymakers to – or, expressed slightly differently, their disregard for and lack of attention to – the question of what economic policies might be expected to best contribute to widely spread/shared improvements in standards of living, or what Smith called, in language that now appears quaint, the *progress of universal opulence*. I will henceforth refer to this general objective as *universal prospering*.[15]

[13] This may be linked with the tendency of simple stories to put human agency centre stage. Parts of the human brain that have evolved to deal with social interactions may have a propensity to see events in terms of such interactions.

[14] Keynes's quip about Bertrand Russell captures the tendency: "Bertie held two ludicrously incompatible beliefs: on the one hand he believed that all the problems of the world stemmed from conducting human affairs in a most irrational way; on the other hand that the solution was simple, since all we had to do was to behave rationally." *Essays in Biography*, 1933.

[15] The substitute language is clumsy, but the obvious alternative, universal prosperity, risks focusing attention on an ill-defined *end state* (prosperity) rather than on the *improvement* of things, which is an easier-to-operationalize *change in state* and which is or should be the focal point of policy. Later in the essay the notion

Given the interest of politicians in votes and given that the pursuit of universal prospering is not a self-evidently vote-losing behavioural pattern, there are clearly some challenging questions to ask about precisely how this indifference comes about. Although such questions are not the central focus of the issue – I will take the indifference as a given on the basis of observed decisions and behaviour, notwithstanding the likely passionate denials of those against whom the charge is made – it can be noted in passing that explanations are not wanting.

The most obvious is based on the familiar notion of goal displacement: the broad and longer-term purpose of promoting economic progress comes, in practice, to be dominated by narrower, more immediate, more self-interested and/or self-serving considerations – a process that is itself facilitated in circumstances in which external incentives to sustain the general goal (universal prospering) are relatively weak, as they typically are for monopolistic decision making institutions in general, and for government institutions in particular (since economic power exercised by government is underpinned by the state's monopoly of legitimate coercion).

What it is that comes to matter more than the broad policy purposes – which all tend to laud, including those engaged in their subversion – will depend on the specificities of context and may take a variety of different forms, including: the acquisition and discretionary use of political power as an end in its own right, for example through the provision of favours in response to the *'clamorous importunity of partial interests'* [16]; the survival and growth of the bureaucracies and organisations in which policymaking is embedded; and more individualistic factors such as resistance to disturbances to established beliefs and reluctance to engage in the more effortful tasks involved in assessment of the implications of policy measures for the evolution of complex economic and social systems.

In all cases the policy process is unduly influenced by private or partial interests of its participants in ways that, if they were more visible, could be expected to be widely regarded as *illegitimate,* or at least in conflict with the declared policy objectives, formal duties and responsibilities of decision makers. There is also (in the kinds of examples cited) an identifiable tendency for *accounts* of decision making that is influenced by these alternative, illegitimate agendas to be given in the form of simple stories or narratives, often of a melodramatic form. Arguably, the melodramatic aspect serves to divert attention, or otherwise cover up, what is going on.[17]

More subtly, Smith's chess metaphor (in his characterisation of 'men of system') illustrates the correlation between the narrative form of explanation in policymaking and an assumed passivity or inertness on the part of many other economic agents (like chess pieces to be moved around): by ignoring the complexities likely to be associated with adaptive responses by large

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of 'helping make things go better' at a very general level will be used to link the purposes of public policy and political economy to discourses in moral philosophy.

[16] A. Smith, *The Wealth of Nations.*

[17] A more generous interpretation of the tendency toward simplicity is that it is indispensable for political success and that it is, therefore, an unavoidable implication of the incentive structures within which decision making occurs. I will consider this proposition later, but suffice it to say here that the evidence in its favour appears unconvincing.

numbers of individuals and institutions, the policymaker can explain his/her policies in terms of actions and assumed, direct and almost certain consequences of those actions. When, however, the potential, adaptive responses (of both individuals and institutions) are explicitly recognised the narrative form becomes much more problematic as a means of assessing and accounting for expected consequences. There are just too many responses/adaptations to tell about.

As already noted, Smith's points also take us a long way toward understanding some of the harmful consequences of the indifference of policymakers to holistic consideration of the consequences of their actions. As he noted, there can be a tendency to see the complexities of adaptive economic and social systems as sources of obstruction to the policymakers' intent, and hence, if sufficient power is available, to seek to remove these obstructions. Published in 1761, these remarks precede Burkhardt's later forebodings about the consequences of the *terrible simplificateurs* by over a century, and the actual "removal of obstacles" by the twentieth century's men of system by a longer period still.

Finally, and although this is not a matter explicitly raised in the above passages, the issues identified link back to the common, contextual feature of monopoly power, and to the dysfunctions that tend to accompany the exercise of such power. The intrusion of private or partial agendas is linked with the incentive structures of monopoly. It a characteristic of monopolies that failures to serve their customers or their public are not heavily constrained by existential threats arising from the ability of customers or the public to go elsewhere.[18]

Similarly, the limited information processing capacity of monopolistic decision making implies a greater tendency to avoid, wherever possible, the effortful consideration of complex issues. As Professor Sir John Hicks said of private monopolies, *"the best form of monopoly profit is the quiet life"*. Most obviously, the availability of monopoly power exposes its holders to a constant temptation to abuse/misuse it, and/or to otherwise behave corruptly.

In contrast, when economic activities are conducted in more competitive conditions: (a) substitution away from legitimate purposes is much more likely to be met with 'loss of business' [19] and loss of income, (b) the threat of loss helps maintain attention and focus on organisational purposes, even where this requires effortful engagement with complexity, and (c) most fundamentally, there is much less power to abuse. I will return to these points later, because they point toward a strategy for improving policymaking performance by making aspects of the process more open to challenge.

4. Corrupted economics

[18] Incentives 'to serve' are not completely absent, and it is of potential interest that they can be significantly stronger for democratic politicians than for civil servants and regulators. The point is only that they are weak.

[19] Or loss of influence or power.

As already indicated, where policy-makers substitute private or partial agendas for the public agendas that they are nominally expected to follow, there is unlikely to be any direct admission of the substitutions that are taking place. Rather, the relevant decision makers can be expected to seek to cover their tracks. In the economic sphere this is likely, among other things, to include some account or reasoning concerning the relevant measure under consideration and its anticipated effects. Hence there will tend to be recourse to Henderson's DIYE or, if it is fit for purpose in the relevant context (and in general it is a less flexible instrument than DIYE), to Galbraith's conventional wisdom.

Neither concept quite captures the phenomena that are of interest here, however. As noted, DIYE calls to mind a professional/amateur distinction, and there are many contexts in which such a distinction is highly relevant. Today, for example, there are abundant illustrations of it in areas such as health policy and environmental policy, where professionals with training in disciplines other than those that address the complexity of economic and social systems not only appear to be ready to make policy recommendations on the basis of very cursory examinations of the immediate and direct consequences of their proposals, but also sometimes go so far as to insinuate that those more inclined to be interested in the rather more subtle and diffuse consequences of human action are somehow opposed to improvements in public health or in the quality of the environment.[20]

However, dysfunctional over-simplification can also be adopted by those who are trained economists. Indeed, over-simplification arising from neglect of adaptive responses to policy changes can be covered by a smokescreen of artificial or phoney complexity. For example, analytic economic models can be used that surreptitiously exclude consideration of significant contextual factors by virtue of the assumptions made, or Byzantine spreadsheet modelling may draw attention away from the limitations of the central reasoning by introducing layer upon layer of assumptions to create 'models' that are impenetrable.[21]

Similarly, the idea of the conventional wisdom implies substantial inertia in existing thinking, whereas it is possible that, in practice, the over-simplified reasoning of interest is developed in dynamic and creative ways, particularly when it takes narrative forms: stories about the great things that particular policies will achieve can be quite novel and inventive.

A common factor in all of this appears to be a certain degree of pretence. DIYE passes itself off as substantive, systematic thinking; the validity of convenient beliefs is exaggerated; formal 'models' are claimed to offer guidance to decision makers which is more reliable and

[20] Jamie Whyte covers some of these issues in his recent monograph *Quack Policy* (London: Institute of Economic Affairs, 2013), although he makes the notion of 'evidence-based' policymaking his central target. This may be misleading in that the problems arise from systematic neglect of relevant evidence and reasoning (i.e. from a selective approach to evidence), not from a focus on evidence as such. Moreover, selectivity in use of evidence may itself not be a problem when policy is created from competitive clashes among alternative views of the world. It is *selectivity in the absence of such contests* that is the source of mischief; and here, as so often is the case, we are returned to the issue of the underlying monopoly in public decision making.

[21] In the first of these examples the underlying over-simplification tends to be associated with the adoption of unduly limited sets of assumptions, which has the effect of grossly exaggerating the likely significance of some of the potentially relevant economic factors at work whilst completely ignoring others. In the second type of example, a super-abundance of assumptions is used as a substitute for detailed factual inquiry.

robust than can conceivably be the case. The pretence is linked to the explicit or implicit claim in much policymaking and analysis that the relevant reasoning is developed to provide a more reliable basis for choosing among alternative policy options, as for example in the context of regulatory impact assessments. In reality the authors of the relevant reasoning/stories/accounts treat the reasoning/stories/accounts as makeshift and disposable, because they are developed only to assist with passing problems. Whether or not they are truthful or add to knowledge is, once again, most frequently a matter of indifference. We are therefore dealing with *Bullshit*, not with a language of inquiry.[22]

In what follows, therefore, I will refer to the phenomenon of interest as *corrupted economics* (CE), since this terminology captures the features that:

(a) the reasoning is, of its nature, incapable of achieving its 'official' purpose of analysing and understanding the consequences of human conduct, just as a computer programme or a DVD that has been corrupted is no longer fit for purpose, and

(b) it is chiefly driven by factors that, if the objective is analysis and understanding, are *illegitimate* influences on the reasoning (just as a corrupt decision is influenced by illegitimate considerations).

The (pre-Frankfurt) seminal reference for students of CE[23] is George Orwell's short essay *Politics and the English Language*. Orwell argued both that thought corrupts language and that language can corrupt thought. He illustrates the first limb of this proposition with the vagueness, incompetence and pretentiousness of political language, which is constructed to cover up or otherwise obscure reality[24]:

"The inflated style is itself a kind of euphemism. A mass of Latin words falls upon the facts like soft snow, blurring the outlines and covering up all the details. The great enemy of clear language is insincerity. When there is a gap between one's real and one's declared aims, one turns, as it were instinctively, to long words and exhausted idioms, like a cuttlefish squirting out ink."

Cuttlefish ink is not difficult to detect in today's departmental and regulatory documents, where the more directly political language is complemented by CE.

In relation to the second limb, Orwell noted that

"A bad usage can spread by tradition and imitation, even among people who should and do know better. The debased language that I have been discussing is in some ways very convenient."

[22] See Harry Frankfurt, *On Bullshit*, Princeton University Press. Roughly, Professor Frankfurt defines *Bullshit* as discourse that lacks connection with a concern for truth, and that is indifferent to how things really are.
[23] I note that CE might, in Professor Frankfurt's framework, be considered to be a particular sub-set of *Bullshit.*
[24] See the second type of economic simplification noted at the end of the previous section.

It might be added here that the debased language and reasoning can become a source of self-deception or. if awareness is maintained, a trap from which it may be difficult later to escape. Smith pinpointed the issue:

"Those leaders themselves, though they originally may have meant nothing but their own aggrandisement, become many of them in time the dupes of their own sophistry, and are as eager for this great reformation as the weakest and foolishest of their followers. Even though the leaders should have preserved their own heads, as indeed they commonly do, free from this fanaticism, yet they dare not always disappoint the expectation of their followers; but are often obliged, though contrary to their principle and their conscience, to act as if they were under the common delusion."

CE comes close to Orwell's characterisation of political language. It may be used in the service of power or money or unrebuttable conviction (fanaticism), or simply because it is convenient and/or requires little effort. Precisely because it serves such ends, it has a tendency to crowd out (be substituted for) more systematic, and generally less convenient and less pliant, economic reasoning. This suggests an analogue in the domain of policy assessment to Gresham's Law[25] in the domain of money: *within public organisations corrupted economic reasoning tends to drive out more substantive and more systematic economic reasoning*. Further, once established, and given the functions that it performs, CE may, consistent with Henderson's professional experience, be exceedingly difficult to displace.

I have added the qualification "within public organisations" here because, whilst individuals may engage in all manner of specious economic reasoning in a variety of social contexts (at pubs, restaurants, dinner parties, etc.), the activity does not typically involve a displacement or crowding out of other types of more developed reasoning. Moreover these are not public discourses in the sense of being preliminary to, or associated with, the exercise of the powers of a public authority, where recourse to substantive or systematic reasoning might more reasonably be expected to be a norm and where the relevant individuals can reasonably be expected to be constrained, whether explicitly or implicitly, by a sense of their special responsibilities or duties.

5. Forms of corrupted economics

Corrupted economics can come in different guises. It may take the form of simplistic arguments about economic cause and effect, which in the limit are akin to superstitions.[26] The mistakes (which make the reasoning unfit for the purpose of providing a secure knowledge base for policymaking) are usually readily identifiable by those with basic economic training – an exercise that can usefully be used in the teaching of the subject – even when the reasoning appears obviously right to those whose views it reflects.

[25] *"Bad money drives out good"*, a statement that refers to the effects when a coinage based on precious metals is debased by the substitution of base metals.
[26] In a more technical language such arguments can be said to lack *integrative complexity*, for more about which see below.

Alternatively and as indicated above, CE can take the form of elaborate economic arguments, developed to obscure the discrepancies between the implications of favoured, simple, often melodramatic stories/narratives and observable realities. It is usually professional economists who are implicated in this practice, responding to pressures as practitioners embedded within organisations that have their own interests and agendas. It is in this latter, Orwellian case that the language (whether ordinary language or mathematical) tends to become vague, obscure and/or pretentious, the primary aim being concealment, not inquiry and discovery in the tradition of Alfred Marshall's famous characterisation of economics as *"not a body of concrete truth, but an engine for the discovery of concrete truth".*

In general, whether CE takes the commoner, melodramatic form or is obfuscatory in nature, confronting it with more substantive analysis appears to be a relatively fruitless task that appears to have driven some to the point of despair. Frank Knight, a founding father of the Chicago School of Economics, is one of the many, as he confessed in his Presidential Address to the American Economic Association[27]:

"I have been increasingly moved to wonder whether my job is a job or a racket ... The serious fact is that the bulk of the really important things that people would see for themselves, if they were willing to see. And it is hard to see the utility in trying to teach what men refuse to learn or even seriously listen to ..."

The exceptions to this generally unequal combat, the occasions on which CE has held less sway, appear to be associated with circumstances in which the prevailing policies have manifestly and spectacularly failed, and in which great harm has been done as a result. As Bastiat put it: *"Experience teaches efficaciously but brutally. ... I should prefer, in so far as possible, to replace this rude teacher with one more gentle: foresight."*

When experience teaches less than brutally the typical course of events is for the credibility of CE to unravel relatively gradually, in the light of the steady emergence of facts and events that increasingly expose the thinness of the storyline, and for the storytellers to see that they must, in their own interests, abandon a crumbling narrative. Much more often than not, and particularly if the economic consequences are not dramatically harmful and/or not simply and obviously attributable to the policy failure, old CE is replaced with new CE. As already noted, by and of its nature CE is makeshift and disposable: it is the purposes that it serves, or the functions that it performs, that are enduring.

In what follows I will focus on the forms of CE that are associated with the telling of simple, melodramatic stories (i.e. stories that grossly exaggerate some aspects of a context and neglect others, with the aim of inducing an emotional response from the audience rather than of promoting enlightenment). Such stories:

(a) purport to give an account of things (i.e. they are presented as being 'explanatory' in some way of another);
(b) focus on connections between *sequences* of events;

[27] Cited in R.H. Coase, *op. cit.*

(c) are *highly selective* in their coverage of events (in choosing what events are and what events are not incorporated into, or otherwise associated with, the story);
(d) tend, even among factors that are selected for incorporation, to attribute exaggerated significance to some over others;
(e) tend to give leading roles to conscious, choosing *agents* and their intentions, and in particular to one or a very small number of protagonists and antagonists; and
(f) rely on stereotypical forms of human agency (hero, villain, etc.).

The demand for simple stories about economic causes and effects arises from a number of factors. They may for example be used to promote partial or private interests, sometimes "*with all the passionate confidence of interested falsehood".*[28] On the other hand, they may have value in assisting individuals and organisations to make sense of, and to operate within, uncertain economic, social and political environments. Even in the absence of the sophistry of vested interests, therefore, it is easy to see why policymakers would be attracted to CE as a means of communicating with a wider public. In practice, the two purposes/functions are likely to co-exist in many sets of circumstances.

It is not my purpose to challenge the validity of the demand for simple stories in general, since the central argument is not that "the public needs to get more sophisticated in the ways in which it interprets economic information and events". Moreover, some simple stories can come from the more basic end of economic theorising (i.e. not just from CE), as when a teacher seeks to give students an intuitive accounts of results. The concern is rather with contexts in which recourse to CE-based narratives is dysfunctional for effective public policymaking.

The underlying problem with simplified, private pragmatisms is captured in an aphorism attributed to Einstein *"Everything should be made as simple as possible, but no simpler"*, which may itself be a shortening of something he said in a lecture at Oxford:

It can scarcely be denied that the supreme goal of all theory is to make the irreducible basic elements as simple and as few as possible without having to surrender the adequate representation of a single datum of experience. [29]

The hazards associated with simple storytelling arise because, when they are present, the narration does tend to "surrender the adequate representation" of significant events, experience and data. In consequence the stories become unreliable guides to the consequences of the decisions with which they are associated. These points highlight a general challenge for the policymaking system: can demands for simple stories be accommodated in ways that are not liable to contribute to dysfunctional economic policymaking?

I will consider the difficulties involved in this challenge in what follows, but one or two preliminary points can usefully be made at the outset, if only to indicate why at least some progress is possible. The first is simply that the relevant outcomes are not binary in nature: it

[28] A. Smith, *Op. Cit.*
[29] Albert Einstein, "On the Method of Theoretical Physics", The Herbert Spencer Lecture, Oxford, 10 June 1933.

is not a matter of opting for one style of reasoning and dispensing with another, or of seeking to remove the influence of partial interests entirely from decision making processes (which would be a utopian aspiration). Appropriate directional movements may suffice to ensure significant improvement.

Second, as intimated earlier there is no compelling evidence to suggest that, notwithstanding the attractions of simple political narratives, they are always a dominant factor in determining the outcomes of elections, or to put it another way, the *intensity* of public demands for simplicity should not be over-estimated. Work in political psychology suggests that things are more complicated than that (and beliefs to the contrary may be another example of decision makers becoming fooled by their own sophistry). For example, a recent study of the effects of cognitive styles in the 2003/4 US primary and presidential elections found mixed patterns of voter responses, leading the authors to conclude that:

Taken together, this research is inconsistent with an unqualified simple is effective view of the complexity-success relationship. Rather, it is more consistent with a compensatory view: Effective use of complexity (or simplicity) may compensate for perceived weaknesses. Thus, appropriately timed shifts in complexity levels, and/or violations of negative expectations relevant to complexity, may be an effective means of winning elections. Surprisingly, mere simplicity as such seems largely ineffective.[30]

One reason for this might follow from a point already made: over-simplifications tend, on average, to be more quickly unravelled by realities ('events') to an extent that, at least where they touch on major policy issues[31], their deficiencies become transparent without great need for significant cognitive effort by observers. It can be conjectured that this feedback mechanism will work less effectively for decisions which do not have far reaching consequences, and hence that major policy dysfunctions might be associated with the cumulative consequences of large numbers of smaller decisions. It is relevant in this case that the study cited was focused on presidential elections, not on day-to-day public policy decisions within government.

Third, it is not necessary for decision makers to be 'mono-lingual' in their explanations of policy assessments, or to be restricted to a single cognitive style. Voters might reasonably expect them to be capable of telling simple stories in some contexts and show themselves to be able to address and explain complexities in other contexts.

6. Two central problems: the fatal conceit and an absence of precise, general objectives

In principle it is possible to envisage a degree of separation in policymaking processes between (a) the careful consideration of the implications of alternative courses of action and (b) the

[30] L.G. Conway III et al, "Does Complex or Simple Rhetoric Win Elections? An Integrative Complexity Analysis of U.S. Presidential Campaigns", *Political Psychology*, 2012.

accounts of the chosen course of action provided to the public, which will likely involve some degree of simplification, selectivity and (to be realistic) *Bullshit*, at least for some audiences and in some contexts. In practice, the tensions between the two can be difficult to manage, and my own experience is that the requirements for an easy-to-tell story frequently tend to become unduly influential within the assessment process. The widespread incidence of CE in official documents is an indicator of such influence.

The fatal conceit

Decision makers tend naturally see themselves as protagonists in their favoured narratives and a strong storyline requires clarity in linkages between actions and effects of a type that is frequently not feasible on the basis of valid economic reasoning, because of the inherent complexities and uncertainties associated with the behaviour economic systems. Smith was among the first to identify the underlying problem, arguing that a wise sovereign would be ill advised to take on:

"... a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society."

Political discourse invites such delusions, however, and in the centuries since these words were written has been no shortage of sovereigns, men of system and central planners who have convinced themselves that they are capable of the impossible. Hayek later called this the *fatal conceit*.

The problem is an awkward one since, when first contemplating a difficult problem in fast thinking mode, there is a common tendency to think of ways in which an identifiable human agent can address the problem and, if the problem appears too large in scope to be addressed by a human agent with normal powers, to go on to consider ways in which enhanced powers might be developed. This is associated with a tendency to suppose that, for every economic problem, there should be somebody in charge of, or responsible for, developing a solution.

Whilst this makes for good storytelling, it has been known for more than a quarter of a millennium why it also makes for dysfunctional economic policy: *putting someone in charge usually implies some degree of monopolisation of the provision of responses or 'solutions' to the perceived problem*. This approach introduces all the well-understood limitations of monopoly into the responsive/adaptive process. In summary, these limitations are: poor incentives (leading to limited interest in the implications of policy actions for at least some of those affected by public decisions), poor information (in aggregate, the few can be expected to know much less than the many), and temptations and tendencies to corruption and abuse of power.

Although there are circumstances in which monopolisation of an activity can be appropriate, such an approach is generally inferior in performance to alternatives (when they are feasible) in which economic systems are so ordered that very many economic agents contribute simultaneously to adaptive responses. The paradigm case is the operation of the price system: increased scarcity leads to higher prices, which lead to myriad, simultaneous adaptations aimed at reducing demand on the one hand (because of higher costs) and increasing supply on the other (because of the increased profitability of supply), hence alleviating scarcity.

This particular form of dysfunctional behaviour (the *fatal conceit*) appears to be an endemic, persistent characteristic of public policymaking. It occurred in extreme versions in the various attempts at central planning in the twentieth century and in recent years, notwithstanding the manifest harm it has caused in the past, it has been subject to something of a revival in responses to major policy challenges (e.g. issues raised by the global financial crisis and by climate change).

Managing without precise objectives

I do not, however, think that a major revival of 'whole economy' central planning is likely to be the most significant manifestation of the dysfunction going forward. Rather, a more real and present danger is over-simplification via the adoption of 'managerial' metaphors in policymaking. These metaphors are dominant in much current public sector decision making and it is more likely via the cumulative effect of numerous smaller policy decisions that the major restrictions on economic performance will be felt.

Business management is concerned with decision making in organisations with particular and specific private/partial purposes. These organisations are individual units in a wider economic system and relevant managerial skills have been developed to improve unit-level operations, most frequently in competition with other, similar units in a broader institutional context such as a market. The specific purposes or objectives of the organisations concerned play a central role in determining the ways in which intra-organisational co-ordination is achieved, for example via the setting of targets (derived from the underlying purposes/objectives) and of incentive structures based on those targets. Where there is competition good practices will tend to drive out bad, since well managed organisations will tend to prosper whilst poorly managed organisations will not.

There are at least two major difficulties in seeking to translate the knowledge and skills gained from managing in a context of competition to a context of public policymaking. First, and most obviously the degree of monopoly in policymaking is typically much higher and as Smith said *"Monopoly, besides, is a great enemy to good management."* [32] Second, there is typically no unifying, specific purpose to be served, implying that there are no available metrics for measuring overarching success or failure.[33]

[32] A. Smith, *op. cit.*

[33] The second of the points is explored at great length in the writings of Oakeshott, Hayek and others, but a 'quick thinking' illustration is provided by a comment by Sir Peter Parker, who having being a manager in the private sector said of his subsequent time as Chairman of the then publicly owned British Railways that it was the first job that he had taken where he did not know what would constitute "success".

The two problems are clearly related to some degree. Competition only exists to the extent that there are 'prizes' to be won, and these prizes give rise to purposes or objectives. At a basic level, for example, an institution might simply seek to survive, to continue in being, in the face of existential threats (survival being the prize in the relevant circumstances) and this provides it with an overarching objective that can be used to manage or organise its activities. Whole economies and societies might face such conditions when engaged in a war that threatens their existence and in such contexts their decision making arrangements may come to more closely those of a very large organisation, but this is not nowadays the international norm.

Similarly, the absence of competition and of its external, unifying pressures on the individual component parts of an organisation offers scope for individuals or intra-organisation groups to pursue their own individual interests. Whilst this is positively desirable tendency at the level of society of a whole, it can become dysfunctional *within* individual component parts/units of the system. In particular, given their potentially large influence on universal prospering and their monopolistic nature, it can be highly dysfunctional within the public policymaking parts of the system.

The 'management' of economic systems that goes (or used to go) under the name political economy is, then, an entirely different beast from the management of entities that comprise units or parts of the overall system – and, if managerial approaches are inappropriate, it is natural to search elsewhere for guidance. A good starting question here is: *have we seen a problem like this ('managing' without precise objectives) before?*

7. The ethical basis of political economy

This brings me to the central thesis of this essay: the phenomenon of CE in public decision making is not a simply a reflection of failure of economic analysis, but is, perhaps more fundamentally, a signal of an ethical failure. The underlying disregard of, or indifference to, at least some of the likely consequences of policy decisions is, in reality, a disregard of or indifference to the material wellbeing of sections the public. The indictment is that our current ways of making economic policy do not meet reasonable public expectations about the responsibilities that should be discharged by those exercising, or assisting in the exercise, of public authority.

The links between economics and ethics were not always as weak as they are now. Indeed, political economy first developed in Britain as an offshoot of moral philosophy. As Winslow puts it:

"Political economy originally meant the management of the body politic with the objective of providing to its members the material means of a good life. This is one key sense in which it can be said to be a moral science". [34]

The linkage is an important one because ethics addresses issues of human conduct in circumstances where that conduct is not, or should not be, driven by a specific, partial or private interest or objective. Thus, if we examine the work of one or two recent moral philosophers, the rather general, unspecific nature of the purposes of moral codes of conduct (which are part of the institutional infrastructure of an economy) is obvious. Geoffrey Warnock, for example, has defined the object of morality as follows:

What morality is supposed to do for us as human beings is, in one way or another, to try to make things go better. I do not of course mean morally better – I am not just going around in a small circle – but "better" in the way that a person recovering from an illness is better, or when the sun comes up the weather is better, or in which being reasonably contented is better than being miserable – that sort of "better". [35]

The potential difficulty of translating this into narrower 'objectives' suitable for practical decision making in a given context is amusingly illustrated by Warnock himself:

"Theories do not get close enough to actual circumstances to give any definite guidance. I am reminded of an experience I had in the course of the second World War. I was on one occasion with my infantry battalion when a flurry of shells started descending on us, and my commanding officer, while leaping for cover under an adjacent scout car, issued the splendid order, "Act for the best, men, act for the best!" That is, I fear, the kind of advice someone with a serious moral problem is likely to take away from a book on moral philosophy" [36]

Whilst such absence of guidance may be true for moral philosophy in general, I do not think the position is quite so bleak when attention is restricted to the conduct of economic policy, which takes us closer to actual circumstances. Indeed policymaking constantly operates in very specific sets of actual circumstances, even when (as it frequently does) it chooses to ignore that fact. What is required are norms or standards of conduct that have sufficient specificity as to be applicable in the relevant circumstances. Moreover, there is generally time for reflection, at least if decision makers so wish: we are not dealing with a situation in which the decision period is constrained by the velocity of artillery shells.

Let me take the argument forward by citing again from Warnock and then from another modern moral philosopher, Gert. Warnock says:

"Morality is surely aimed at counterbalancing or overcoming the tendency to damage and destruction, to conflict and confrontation, inherent in the limitedness of human sympathies in their natural state. The basic object is to try to inculcate, in creatures naturally inclined to be concerned only for themselves or at least a very limited circle of others, a kind of impersonal

[34] T. Winslow, "Keynes on the Relation of the Capitalist 'Vulgar Passions' to Financial Crises", *Studi e Noti di Economia, Anno XV.*
[35] Geoffrey Warnock (1993), "The Object of Morality", *Cambridge Quarterly of Healthcare Ethics.*
[36] *Ibid.*

concern for the community in general – not only the whole human community but the whole of the setting in which we exist." [37]

This goes some way to bridging the gap between moral philosophy and public policy. Policymakers are, after all, not only expected to have a normal citizen's concern for the community in general. They are the community's representatives (politicians) or public *servants* and are expected to shoulder a *special responsibility* to exercise a high degree of concern for the community in general, for obvious reasons that include the facts that:

- They are paid to do so.
- They exercise the legitimate coercive power of the state, and it is widely held tenet of contemporary ethical codes that *with greater power comes greater responsibility*.

The first of these points requires no elaboration, but the second can be illuminated further by Gert's specification of the object of morality as:

"... applying to all rational persons, governing behaviour that affects others, and has the lessening of evil or harm as its goal." [38]

Public policy, of course, "affects others" on a potentially grand scale, which indicates a concomitant capacity to cause considerable harm. The importance of establishing and sustaining appropriate standards of conduct should therefore be self evident.

There already exist areas of economic policy where these notions of the object of moral codes are integral features of the architecture of economic institutions, competition law and its enforcement being perhaps the most obvious example. UK and EU competition law rest on two pillars, embedded in Chapters I and II of UK legislation and Articles 101 and 102 of the TFEU[39], from which the UK legislation is derived. The first prohibits agreements among firms which cause harm by preventing, restricting or distorting competition, which is the contemporary analogue of much more ancient laws aimed at preventing conspiracies to raise prices or otherwise rig markets to the detriment of consumers. The second prohibits the abuse of a dominant position, by which is meant the abuse of economic power by a firm or firms in possession of such power. In Gert's way of putting things, this clearly has the goal of the lessening of harm done by the inappropriate exercise of such power.

Three points can be noted at this stage. First, here (in competition law) we have a concrete example of the operationalization of rather general notions about standards of conduct in business.

Second, the approach goes much further in guiding economic conduct than abstract notions such as "act for the best", "act in the public interest", "maximize social welfare", and the like, because it defines the contexts and types of harm to which it applies: harm to consumers and

[37] *Ibid.*
[38] Bernard Gert, *Morality: Its Nature and Justification,* Oxford University Press, 1988.
[39] Treaty for the Functioning of the European Union.

competition caused by the exercise of market power. It is notable that causing harm to competitors that does not cause harm to consumers is not prohibited, unless it in some sense also damages the competitive process itself. Whilst this latter concept, "harm to competition (or the competitive process)", is not without difficulties, one natural interpretation that is consistent with the general stress placed throughout this essay on the importance of economic institutions and commercial cultures is that "harm to competition" refers to damage that might be done to generally beneficial institutions and cultures. That is, the harm identified takes the form of impairment of the capacity of a particular sub-set of institutions/cultures to function effectively in the future.

Third, in competition law it is not generally the case that harm to consumers and/or competition can easily be set aside on the ground that the problematic conduct leads to other benefits that are greater than the harms that are the focus of this aspect of the law. Whilst other considerations are not completely ruled out, there is a presumptive 'tilt' in the approach that tends to require rather compelling reasons why other factors should be taken into account. The appropriate magnitude of the tilt is an area of current controversy – how easy should it be, for example, to introduce matters such as public health and environmental protection into the assessments? – but its existence has the effect of requiring those engaging in potentially prohibited behaviours to consider, very carefully, the more specific harms encompassed by policy/law.[40] Thus, well enforced competition law aims provides incentives that help prevent indifference to adverse effects of business conduct (on consumers and on the institutional structures of markets) becoming embedded in commercial cultures.

Since economists feel able to assess the conduct of business enterprises using harm-based standards that are considered appropriate in a context in which enterprises exercise substantial market power, this suggests that it should in principle be possible to do something similar when public sector decision makers exercise their own market power. Operating in simple story mode, it might be said that what is sauce for the (powerful) private goose might also serve as sauce for the (more powerful) public gander. Public policymakers should have special responsibilities to give due consideration all the significant effects of their actions within their prescribed domain[41], and not just those that are drawn to their attention by importunate private interests. Such effects should include not only impacts on individuals and organisations but also on institutional structures and commercial cultures. When considering effects/consequences in the round, there should be a tilt against measures that cause harm to institutions and cultures that have proved particularly favourable to universal prospering. As has been the case in the development of competition law, it would be advantageous to support and reinforce the desirable standards of conduct with incentive structures that penalise individuals and organisations that fall short.

[40] My own view is that the tilt against consideration of other factors should be strong because of (a) the high value that competitive market cultures tend to have for economic performance, and (b) the high value that such performance tends to have for the achievement of other social benefits, including in such currently controversial areas as health and environmental policies.

[41] Prescription of the domain of individual decision making units is an aspect of overall policy design concerned with the appropriate *intra-government division of labour*, and it is an activity that is characterised by a particular mix of dysfunctions that merits separate examination.

To sum up, the disregard for the consequences of decisions and the intrusion of illegitimate private/partial agendas into decision making – each associated with the use of CE – represent failures properly to discharge the responsibilities of power and hence can be viewed as abuses of power. If economics were a profession, the practitioners of CE could potentially be struck off, but it isn't and they can't be, so we are led to search for alternative ways of mitigating the potential harm.[42] Before considering progress to date in this direction, let me first, however, deal with one or two loose ends relating to the use and effects of CE.

8. Proportionality in assessment and complexity of effects

Proportionality

In a European Court Judgment (*Tetra Laval*) involving an economic assessment undertaken by the European Commission, the Court set out the relevant standard of assessment as follows:

"Not only must the Community Courts, inter alia, establish whether the evidence relied on is factually accurate, reliable and consistent but also whether that evidence contains all the information which must be taken into account in order to assess a complex situation and whether it is capable of substantiating the conclusions drawn from it."

One reaction to the judgment by some economists was that the standard was disproportionately high, to a degree that would impair the enforcement of competition policy.

Without entering into the specifics of the individual case, it is obvious that there are issues of proportionality in circumstances where the assessment process itself is, as it should be, subject to resource constraints. I hope it is clear, however, that the arguments developed above – emphasising a similar point to that of the European Court, that due consideration be given to all relevant effects – do not necessarily imply that there is any pressing call for a substantial increase in the overall resource burden of policy assessments. To the contrary, at the outset I stressed the limitations on the ability to predict the effects of policy measures in any great detail, limitations that arise from the uncertainties and complexities of the relevant economic systems. In practice, what is far more likely to give rise to disproportionality is a failure to recognise these limitations. Devoting resources to infeasible tasks is, definitionally, disproportionate in itself, but it also leads to disordered policymaking that calls for resources to be allocated to its future correction.

Neglect of relevant factors is, in my experience, only rarely forced on assessors by resource constraints, but is rather more typically associated with situations in which over-simplifications arise from biases toward a particular narrative, whether those biases arise internally (to fit a preferred political storyline) or externally (from the *clamorous importunity of partial interests*). Hence the tendency of courts in the process of judicial review to require that all relevant

[42] Since some violations of competition law are also criminal offences, there is also an obvious 'double standards' issue when, say, the Board of a regulatory authority takes decisions that have similar effects (and therefore cause similar harm) to those caused by the criminal behaviour of business executives.

information be taken into account and can be seen as a general protection against the intrusion of undue influences on decision making processes, including by placing checks on the spread of CE.

Rather than constituting the basis of a case for more assessment resources, the arguments point toward the desirability of a shift in the *cognitive style* of economic policy assessments, toward what psychologists call *integrative complexity*. This term refers to an approach that, when addressing complexity, is simultaneously capable of taking account of the many differentiated factors that may be relevant, the many perspectives that may potentially exist (based on those factors), and the possible connections, similarities and differences among those perspectives. It is highly tolerant of uncertainty and ambiguity, and therefore stands in sharp distinction to approaches to decision making that are based around only a few, salient reference points, tend to neglect other factors and perspectives, and that favour conclusions that minimize references to uncertainties and ambiguities.

Although such an approach is almost inevitably more effortful in the early stages of assessment, it benefits from the resource savings that come from conceptual maps that are more congruent with realities and that avoid the need for the covers ups and deceptions that tend to be associated with CE when the latter comes to be exposed to comparisons with realities.

Simple stories with complex consequences and complex stories with simple consequences

Ironically, one of the most damaging of the dysfunctional consequences of CE arises from its tendency to introduce *increased complexity* into the workings of economic institutions. This is because multiple, simple stories of problems that need to be corrected tend to lead to multiple interventions based on those partial and disjointed stories, leading to instability, disjunction and incoherence in the institutional structures of the economy, including markets. This 'disorder' is, in turn, carried forward into incentive structures, and finally into commercial conduct.

In short, CE-justified state action tends to disrupt the functioning of other economic institutions. Whilst the narrative may be cast in terms of a protagonist "putting things right" (e.g. the policymaker stepping in to correct 'market failure'), the outcome is very often to make things worse (e.g. the intervention impairs the functioning of one or more markets), as is well attested in a copious, empirical research literature on the effects of regulation.

The process of over-complication in policy attributable to simplistic storytelling can be illustrated by the notion of *Politicians' Logic*, as expounded by the fictional civil servant Sir Humphrey Appleby in the BBC comedy TV series *Yes, Prime Minister*: *"Something must be done. This is something. Therefore we must do this."* The lots of (relatively arbitrary) somethings to which Politicians' Logic leads tend to lack overall coherence, and to distort incentive structures in all manner of dysfunctional ways. Policy structures can become Byzantine and the rationale for later measures can eventually come to be dominated by mitigation of distortions caused by layer upon layer of previous policy measures. In this way, simplicity of thought and language, driven by demands for simple accounts of things, can create unwanted and harmful complexity in the institutional and incentives structures that underpin economic life.

The observed outcomes of this type of process are economies in which the state and its agencies can come to play a dominant part in economic life. The corollary of this is that monopolistic decision making comes to play a similarly dominant role, with all the restrictions on economic activity that monopolisation brings

None of this is good for "making things go better" in Warnock's general sense or, as Gert suggests, "avoiding harm", but the dysfunction on which I would place most emphasis is the reduction in the size of the information set that has influence on policy decisions, and hence on outcomes, across a wide range of government activities. In terms of the evolution of complex systems, monopolisation of all kinds is associated with a smaller or less diversified information set because, to repeat an earlier point, decisions are made by the few, not by the many. The general consequence of such loss of informational diversity is a more fragile system that is more vulnerable to shocks, and CE is one of the handmaidens of this process.

On the other side of the coin it can be noted that economic policies based upon a fuller understanding of the complexities and uncertainties of systems of economic relationships do not necessarily lead to complexity in public policy. If anything, deeper recognition of uncertainties and of the limits of what is known should tend to point in the opposite direction, toward relative simplicity in policymaking, because fuller understanding of complex systems will reveal the limits that exist on the extent to which those systems can be manipulated toward a set of specific, desired outcomes.

9. Progress to date: the inadequacy of good intentions

Although I have suggested competition law as an example of good practice in economic policy-making, there is, I believe, a general sense that recent and current policy has not been very effective in helping "make things go better" for the general public. There appear to be two separate factors at work here: (a) a continuing tendency for new problems to be tackled on the basis of default modes of thinking, based on simple narratives, typically including promised action from 'men of system', and (b) an erosion of earlier policy initiatives intended to help establish more reflective policy assessment processes.

A current example of the first factor is the development of climate change policy. The propensity to have recourse to simple stories (e.g. about how climate change will be mitigated) leads to accounts of how the problems will be addressed on the basis of what is known today, whereas the likely adaptations that will eventually take place are largely unknown (i.e. there is quite massive uncertainty on these matters) and therefore not easily encapsulated in standard narratives. The 'current knowledge' narratives have become unduly influential in actual policymaking, and are justified on the basis of CE. Most economists who have looked at the issues are clear that one of the outcomes is a quite massive level of inefficiency in the way that decarbonisation objectives are being pursued, but the obvious harm done by this inefficiency (to living standards) has had only weak influence on policy to date.

Illustrations of the second factor are to be found in the areas of devolved regulation and of regulatory impact assessments, which I will now consider in greater detail.

Devolved regulation

Devolved decision making powers to organisations such as central banks and sectoral regulators (in areas such as energy, communications, transport and water) have had some limited successes because, although they do not remove the public monopoly in decision making, they serve to mitigate some of its worst excesses. The principal argument is roughly as follows. Not only is there a tendency for the partial/private agendas of politicians and other interests to be substituted for the legitimate, more general purposes of public policy decision making, but also the substitutions that take place tend to be volatile and unstable. Political priorities can shift relatively rapidly, for example in reflection of similarly rapid movements in public opinion, and the resulting instability in public policy objectives and in economic institutions (since policy tends to be implemented via perturbations to institutions) reduces policy effectiveness and impairs economic performance.

Devolution/delegation of regulatory powers and duties is intended to mitigate the harm caused by this instability by creating barriers to the swift translation of volatile objectives into decisions. It does not, however, eliminate the more general pressures for agenda-substitution, and recent developments in the British energy sector demonstrate its vulnerabilities when those pressures are strong or sustained, for example because of sustained upward pressure on the costs of supply of energy. Thus, in effect, the Electricity Market Reform programme of the UK Conservative/Liberal coalition government that came to power in 2010 represented a capture of energy policy by the 'men of system', a move back toward central planning. Notwithstanding the existence of a regime of devolved regulation that was internationally recognised as being close to a gold standard for this type of policy approach, the narrative attractions of the fatal conceit won the day once more.

The unravelling of previous policy in wholesale and retail energy markets appears to have been assisted by the importation of CE that was developed in the context of climate change policy, although the political interest in retail energy prices in a period of increasing prices coupled with the willingness of the sectoral regulator to bow to political pressures to do something about retail pricing was a contributory factor. To a reasonable first approximation, the recent history of retail energy pricing in Britain has been another repeat of Cannan's *same absurdity* which *crops up generation after generation*: most of the public anger was directed at suppliers.

Regulatory impact assessment

Regulatory impact assessment is an approach that has been widely adopted internationally and is based on the obviously sensible idea that public policy makers should consider the consequences (impacts) of their decisions before making them. Unfortunately, policy processes, under familiar pressures from private/partial agendas that are indifferent to many aspects of general economic welfare, have proved resistant to developing the cognitive styles and cultures of inquiry that are appropriate for such work. The formal assessment processes that have been established have been significantly discredited as a result. Considerable effort and resources have been devoted to the exercises, but there is an absence of evidence showing that they have had material effects on policy outcomes. As argued earlier, the exercises have simply become another historical illustration of disproportionality, with lots of effort and little or nothing to show for it.

There is though one, ironic qualification to this 'nothing to show for it' judgment. In requiring that formal impact assessment be undertaken and documented, the approach has significantly increased the demand for CE within government.

It is to be stressed that it is the practice, not the principle, of impact assessment that has proved to be flawed: the original intentions of those who initially advocated the approach were sound enough. In the EU's Mandelkern Report (2001), for example, it is stated that regulatory impact assessment *"... does not replace the political decision: rather it allows that decision to be taken with clear knowledge of the evidence."* This suggests a clear separation between the political decision itself and the content of the assessment, which should be concerned with providing the decision maker with information relevant to the decision. Although not explicitly stated, it also implies a sequence in the activities, involving the collection and assessment of evidence *before* the decision is taken.

Impact assessments should, on this basis, be concerned with the kinds of questions that might be raised in a judicial review of the decision. For example, the questions posed by Lord Diplock in *Tameside*[43] were:

"... the question for the Court is did the Secretary of State ask himself the right question and take reasonable steps to acquaint himself with the relevant information to enable him to answer it correctly?"

Well conducted impact assessments should be capable of answering the Diplock questions in the affirmative, and of satisfying the European Court's requirements set out in *Tetra Laval*.

In practice this is not how things happen. Impact assessments are much more typically back-engineered to achieve alignment with the eventual decision. In some cases there is a heavy emphasis on the final benefits-to-costs ratio, which simply creates incentives to make *assumptions* that will lead to calculations of the ratio that are consistent with preferred policy, and which itself is just a particular example of the CE tendency, in its more elaborate guise, to adopt sets of assumptions (the inputs of economic models) geared toward the production of desired types of implications (the outputs of the models). In a commercial context such manipulation of numbers might be classified as misrepresentation or as being misleading. In professional terms it amounts to the 'passing off' of CE as the genuine article.

[43] *Secretary of State v Tameside*, 1977, Appeal Court 1014, 1065B.

The process is a good illustration of unintended consequences arising from a lack of attention to the adaptations induced in other institutional structures when public policy perturbs one aspect of institutional arrangements. In this case the perturbation took the form of requirements to produce regulatory impact assessments. The adaptation took the form of a subversion of the assessments so that, rather than fulfilling the Mandelkern vision (that they should inform decisions), they came to be treated as exercises in justification of the final decision.

The process at work is readily understandable. For example, an impact assessment that contained material that could appear to be inconsistent with a final decision, or to be inconsistent with the planned presentation of such decision[44], might be perceived as increasing the risks of judicial review. The pressures to 'adjust' the impact assessment are therefore obvious, and the inevitable uncertainties and ambiguities of evaluating economic effects typically offer considerable scope for doing so. For example, multiple uncertainties/ambiguities, each not necessarily large when considered individually, can all be be reduced or resolved in ways that systematically and cumulatively tend to point toward the desired conclusion.

In the UK, the current, outstanding example of these points is the cost-benefit analysis used in support of the Government's declared intention to build a high speed rail link between London and Birmingham (HS2). The initial assumptions and calculations were simply not credible and were subsequently substantially altered. What didn't change was the answer.

The HS2 experience is far from unique. In an analysis of large infrastructure projects [45], Flyvbberg, Garbuio and Lovallo have written that:

"There are some phenomena that have no cultural bounds such as maternal love and a healthy fear of large predators. We can add to this list that, across the globe, large infrastructure projects almost invariably arrive late, over-budget, and fail to perform up to expectations."

Whilst the point is over-stated, there can be little doubt of the existence of persistent and systematic bias in the relevant assessments. It can also be noted that the two factors that the authors examine as potential causes of the bias – delusion and deception – are aspects of two of the concepts discussed above, over-simplicity in cognitive style (delusion) and substitution of private/partial goals for legitimate, broader goals (deception).

10. What more might be done?

Some years ago now (in 2006) the Better Regulation Commission (BRC) published an innovative report on *Risk, Responsibility and Regulation* that addressed a number of issues that

[44] For example, a presentational intent to exaggerate certain benefits of the decision.
[45] "Delusion and Deception in Large Infrastructure Projects: Two Models foror Explaining and Preventing Executive Disaster", *California Management Review*, Winter 2009.

overlap with the preoccupations of this essay. In particular, the BRC was concerned with the problem of the tendency of politicians to seek to respond in hasty and ill-considered ways to events that attracted major media attention and gave rise to anxieties about specific risks among the public, without thinking through the implications of possible responses (i.e. the problem of over-hasty recourse to *Politicians' Logic*). Examples of such events identified by the BRC included accidents on school holidays, the MMR vaccine controversy, and rail crashes.

Among the proposals contained in the Report was one for the establishment of an independent panel, outside government, that could advise on issues involved and, crucially, whose formal procedures, although intended to be swift, could give time for more reflective assessments that would be capable of taking account of complexities, uncertainties and the potential of policy responses to give rise to unintended consequences. In the event, and as not infrequently happens to innovative groups within government, the BRC was itself abolished (in 2008) and although there are faint echoes of its thinking in some later developments in regulatory impact assessment the more radical aspects of its proposals – including the clumsily named Fast Assessment of Regulatory Options (FARO) Panel – were lost.

Whereas the BRC was focused on biases and over-simplification in decision making that occurs within government – whose effects are likely to be magnified by both the reach and monopolistic nature of the relevant decisions – recent UK government attention has been more focused on the implications of biases that exist at the level of the individual citizen, where each individual effect of any bias is small and where there is at least a prospect that, in many contexts, there will be some partial self-cancelling of the effects (different people may have different ways of looking at any given piece of information, for example). Whilst the BRC was abolished, a Behavioural Insights Team has been established in the Cabinet Office that is very much focused on the behaviour of the public, not of public decision makers. There is more than a hint of a beams-and-motes view of the world here (i.e. of a particular type of behavioural bias that was identified long ago). There has therefore been some regression in this area over recent years.

It nevertheless remains an important task for institutional design in policymaking to prevent political cultures – and behind them both the pressure of partial/private interests and a perceived (though probably exaggerated) public demand for simple stories – from having adverse effects on the cognitive styles of what might be called the *assessment cultures* or *cultures of inquiry* that are conducive to effective economic policymaking.[46]

A more substantive and systematic economics built around assessment processes characterised by greater integrative complexity would not, and should not, prevent decision makers or those in the 'front office' of an organisation presenting decisions in their most favourable light. Similarly, more reliable assessments of the consequences of alternative policies do not eliminate discretionary, political judgments about the merits of alternative policies, since the latter will necessarily depend upon judgments about the relative weights to be attached to

[46] Cultures that are characterised by integrative complexity. See also C. Decker and G. Yarrow, "On the discovery and assessment of economic evidence in competition law", *Studies in Regulation,* Regulatory Policy Institute, 2011, www.rpieurope.org

different effects (and realistic economic analysis can also be expected to leave significant uncertainty about such effects). As noted, this was specifically recognised in the Mandelkern Report.

In the same way, judicial review of administrative decisions can be be expected to leave a considerable margin of appreciation to decision makers. Indeed, since judicial supervision of administrative decision making is itself part of the adaptive complex system of interest – judicial scrutiny is likely to increase or reduce in intensity in response to the prevailing degree of confidence in the integrity and effectiveness of policymaking: decision making processes that are better geared to serving their general, legitimate purposes are less likely to attract intrusive judicial supervision. Again, therefore, there is no basis for a concern that improved decision making processes will imply the surrender of democratic sovereignty to technical analysis, as should be clear from the consistent use of the expression *political economy* for the desirable cognitive styles and assessment processes.

11. The restoration of political economy?

Political economy is, however, concerned with much more that simple recognition of political influences on decisions with significant economic consequences. As discussed, in its original developments it was seen as a moral science based on a general concern with the overall performance of an extensive, complex, adaptive system, carrying the implication that the generalised concern at its root does not translate readily into a style of analysis that sees simple links between economic 'instruments' and specific 'targets'.

Under pressures from partial, private interests of a range of different types, the generalised concerns/purposes have, I think, largely been lost in a froth of day-to-day game playing, or what one distinguished UK economic regulator disparagingly used to refer to as "boys' games". Corrupted economics is one of the characteristics of these circumstances.

Economists, however, are not unique in facing pressures to degrade their own output, and economics is not unique in facing do-it-yourself alternatives. A whole range of institutional adaptations have been developed to address these issues in various professional services contexts.[47]

Economics does not possess formal professional structures and such incentives as exist to resist pressures to reduce quality of service are relatively weak. Academic incentives are not currently well geared to promoting better performance in dealing with complex factual issues: the dominant tendency is toward what, in terms of policymaking requirements, is an over-abstract approach that tends to be averse to case study work (which is time consuming and

[47] This is not to say that the observed professional arrangements are driven *only* by a desire to prevent degradation of quality of service: a recurring question has concerned the extent to which any particular set of arrangements may produce benefits to a profession by restricting competition among its members. The point being made is more limited: it is that factors such as codes of ethics and the possibility of sanctions for malpractice tend to have positive effects on the quality of supply.

effortful relative to developing variants of existing economic models) and tends not to pay much attention to institutional issues.

Nevertheless, it would be disproportionate to advocate full professionalization of the discipline. In many contexts intellectual competition is likely to be the better way forward: for example, although universities are subject to numerous pressures from partial interests by way of their funding mechanisms, *global* diversity in funding sources is likely sufficient to warrant the classic, liberal recommendations concerning liberty (in the form of academic freedom) and tolerance (of diversity in practice).

The challenge of interest is not to improve all economic assessment, but rather the narrower objective of raising standards in assessments made in a context where they are liable to (a) influence the exercise of market power by government or by an agency of government by virtue of their closeness to decision makers and (b) have significant consequential implications for universal prospering. The relevant context of interest is, therefore, one in which decisions have what economists call external effects (i.e. uncompensated impacts on others) that tend to be large in scale and scope; and it is because of this that an appropriate approach to assessment should be grounded in the ethical concerns of traditional political economy.[48]

Proceeding in this way, the general principles of seeking not to cause avoidable harm to others and (following Warnock) to be concerned with "the whole setting in which we exist", including with the effective functioning of economic institutions and processes, should translate into more specific, special responsibilities or duties of care such as a responsibility/duty of due diligence in investigating the potential consequences of alternative courses of action when market power is being exercised. Among other things, this involves ensuring that due consideration is given to the interests of those who may be adversely affected by the exercise of market power, not least so as to make sure that possibilities for avoiding or mitigating such harm are adequately explored.

It is here, I think, that we find a cultural chasm between policy assessment as it should be and policy assessment as it is, all too frequently, in practice. A duty of care to discover, investigate and explore the consequences of the exercise of power for fellow citizens, for example with a view to avoiding or mitigating harm, provides a stable reference point for professional performance.[49] Importantly, it involves a standard of conduct that is the same across the different activities and institutions of government. In contrast, for reasons given, recourse to CE is typically an expedient way of serving illegitimate interests, which may take different forms in different contexts.

The organisational sectarianism that is to be found within government, manifested in the way that the individual fiefdoms (departments, agencies, divisions, etc.) compete for power,

[48] The dominant approach to the existence of externalities is another example of a beams-and-motes cognitive bias. A finding of significant externalities in a market under study tends to be treated as an indicator of "market failure", but the significant externalities that are invariably associated with major policy measures are never treated as indicators of "policy failures". A double standard applies in the use of language, associated with a double standard in the judgments that are made.

[49] Note possible exception of competition law, where may be advocates.

resources and influence, accounts in large part for the demise of the Better Regulation Commission noted above, and for at least some of the erosion in the independence and effectiveness of delegated/devolved regulation to specialist, sectoral agencies that has taken place in the UK. It is also a major obstacle to organisational or institutional approaches to creating space for *cultures of inquiry* and for appropriate cognitive styles in economic assessment. In an organisational or institutional environment that is subject to constant change, often driven by impatient and unreflective responses to new problems and events, it is that much more difficult to establish stable conditions for the development of more considered, durable and effective policies.

It seems likely, therefore, that the problems identified will only be significantly mitigated by a multi-pronged approach. The evidence to date of failed, piecemeal reforms indicates the ability of existing vested interests, including within-government organisational interests, to absorb and eventually repel attempts to improve policymaking processes by means of attempted organisational and institutional change.

It is therefore perhaps time to supplement traditional reform agendas with approaches that seek to increase the level of *individual* responsibility that those involved in policymaking processes are expected to bear. That is, individual assessors should be held to account, to a significantly greater extent than is currently the case, for any egregious failures to maintain specified duties of care and due diligence in investigating and considering material effects of the exercise of market power by government departments and regulatory agencies. If re-engineering Leviathan has not worked, perhaps modifying the DNA of Leviathan's most basic elements will.

Examples of (complementary) measures that could be taken include the following. First, practical steps could be taken by government economists themselves to seek to professionalise their duties. This might include more explicit specification of standards of conduct, which should centre around duties to the public that is being served, whose lives and livelihoods are affected by the exercises of power to which public servants contribute.

Second, consistent with the principles of competition law, assessors could be prohibited from facilitating abuses of market power and penalties should be applied *pour encourager les autres*. This raises questions about how abuse should be defined in a public decision making context that are beyond the scope of this essay, but concepts of harm and neglect (e.g. neglect of discoverable, material impacts of decisions on members of the public) provide the basis for developing the concept in ways appropriate to the relevant contexts, supported by the principle that the greater the potential harm the greater the duty of care (or the greater the special responsibilities to be borne by public servants). Judicial review and (in some cases) merits review provide checks and balances that serve to hinder the effects of some bad practice, but they rarely have major consequences for individuals involved in decision making processes.

Third, there is considerable scope for developing the embryonic thinking of the Better Regulation Commission on the establishment of institutional structures that provide for independent advice on aspects of the policy issues with which government is wrestling at any one time. A useful reference point for thinking here might be practices adopted in law enforcement. For example, The European Court of Justice makes use of Advocates General, senior law officers who are full members of the Court, but are neither judges, prosecutors, nor defence advocates. The Advocates General assist with cases, in particular by delivering opinions on questions of relevance to a case. Such opinions are non-binding.

One possibility is that a similar system (of *General Economic Assessors*, say) be established for delivering economic opinions, with each government department or agency required to seek such opinions in relation to the economic reasoning relied upon when making significant policy decisions. Opinions would be non-binding, but would be public and hence available for use in public debate, in judicial review proceedings, and so on. The recently established Office for Budget Responsibility might be seen as a precursor of this type of arrangement, although the fact that it is linked to the Treasury is less than ideal in terms of independence: cross-departmental and cross-agency arrangements probably offer more protection from the intrusion of the partial agendas that play such a large role in the development of CE.

Under such an approach outside opinions would not be just an occasional constraint on assessment processes, as when government calls in an independent expert or group to conduct a review: they would be an everyday presence. For officials seeking to resist the *terrible simplificateurs* and to discharge their responsibilities to the public such assessors would be potential allies: for those less inclined to meet the relevant standards of conduct they would be thorns in sides, which is how it should be. Standing firmly on the executive side of the fence, they would not blur lines between the executive and judicial functions of government, but. crucially, without organisational interests of their own to promote/defend and without elections to win, they might offer a prospect of laying the foundations of a more reflective and diligent culture of assessment on the administrative/executive side.

12. In conclusion

CE is bad economics in the sense of Bastiat, but the principal causes of its widespread use are not chiefly to do with technical failures in analysis, which will continue to exist in more or less all circumstances, if only by virtue of an inevitably limited ability to anticipate the evolution of complex, adaptive systems . I have argued rather that CE is driven by ethical failures, manifested by an inability to resist the illegitimate intrusions of partial or private agendas, which come in many shapes and forms from many sources, and by a willingness to bend analysis to serve those agendas. The problem is perhaps summed up in proposals put forward by a public agency with ‘supporting’ reasoning and evidence which ended with the claim that the proposals could be expected to save £500m for the public purse. When asked (privately, by another economist) how the relevant assessment team had derived the figure of £500m, an economist involved in the assessments replied along the lines of: *“Don’t pay any attention to that number, no-one believes that, it is there for the Daily Mail.”*

Such misleading and deceptive conduct would merit condemnation in more or less any commercial situation, but, on the basis of the proposition that with greater power should come greater responsibility, it falls particularly far short of reasonable standards of conduct in a context where the relevant organisation exercises considerable power in and over (i.e. in supervisory and policymaking activities) markets. Political economy developed as a subject with an acute awareness of the moral dimensions of the exercise of power. Unfortunately, much of that awareness has been lost in more recent periods and things would go better if there was at least a partial restoration.