

*Nobel laureates meet
policy makers*

Conversations in memory
of Jan Tinbergen

Preadviezen 2019

Koninklijke Vereniging voor de Staathuishoudkunde



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Preface

2019 marks the 50th anniversary of The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel (for brevity referred to hereafter as the Nobel Prize). It also marks the 50th anniversary of Jan Tinbergen's Nobel Prize.

Jan Tinbergen was a brilliant academic researcher who developed a series of breakthroughs in econometrics and macroeconomics, for which he was awarded the first ever Nobel Prize in Economics in 1969, jointly with Ragnar Frisch. Jan Tinbergen also played a very important role in economic policy making, among others by setting up the CPB Netherlands Bureau for Economic Policy Analysis and being its first director. His work is characterized by a continuous cross-fertilization of academic economic research and economic policy making.

It is in this spirit that a series of conversations took place in the Fall of 2019 between high-level economic policy makers and Nobel Prize winning economists. Under the inspirational leadership of Professors Eric Bartelsman (Vrije Universiteit Amsterdam) and Esther-Mirjam Sent (Radboud University Nijmegen), policy makers and researchers discussed the current state of economic research, economic policy issues, and in particular the relation between the two.

The write-up of these unique conversations, together with a reflection of a round-table discussion among Dutch economists, form the *KVS Preadviezen 2019* – the 2019 edition of the annual publication of the Royal Dutch Economic Association that aims to provide economic policy advice to policy makers. Because of its special nature, the *Preadviezen* appear in English this year. However, a Dutch translation of the conversations will be published in a slightly adapted form in the newspaper *Het Financieele Dagblad* – thus guaranteeing wide dissemination – and will be collected in an electronic publication towards the end of the year.

We are extremely grateful to Eric Bartelsman and Esther-Mirjam Sent for executing this very creative and bright idea for the set-up of the *Preadviezen 2019* and for initiating, moderating and writing-up the conversations. We

are sure the book will provide a great source of inspiration and knowledge for many economists, for those who are active in policy and for those who work in academia.

We are also most grateful to the economists who agreed to take part in the conversations: Nobel Prize winners Sir Angus Deaton, Lars Hansen, James Heckman, Sir Christopher Pissarides, and Joseph E. Stiglitz, and policy makers Laura van Geest, Ángel Gurría, Wouter Koolmees, Peter Praet, and Eric Wiebes. Thank you for sharing your insights and for engaging in these lively discussions.

Editor-in-chief of Dutch journal on policy economics *ESB* Jasper Lukkezen and his team played an essential role in the production of book. They joined the conversations and collaborated in the write-up. They did an amazing job in a very short period of time.

Finally, we would like to express our gratitude to the CPB Netherlands Bureau for Economic Policy Analysis for hosting the event at which this book is presented.

We hope that, in addition to being a pleasurable and insightful read, the *Preadviezen 2019* will contribute to a better functioning of the science and practice of economic policy making, much in the spirit of Jan Tinbergen.

Robert Dur

President of the Royal Dutch Economic Association

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James Heckman is a Professor of Economics at the University of Chicago. He has devoted his professional life to understanding the origins of major social and economic questions related to inequality, social mobility, discrimination, and the formation of skills and regulation in labour markets, as well as to devising and applying rigorous empirical methods for understanding and addressing these questions. He is the recipient of the 2000 Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel.



Laura van Geest has been director of CPB Netherlands Bureau for Economic Policy Analysis since 2013. She has degrees in economics and in public administration from Erasmus University and started her career as policy advisor at the Ministry of Finance. Following her position as policy advisor to the Dutch Executive Director of the IMF, she worked on a variety of domestic policy areas at the Ministry of Finance. Ms. van Geest held the position of General Treasurer and Director General for the Budget during the financial crisis.

Moderator Eric Bartelsman

Editorial assistance by Jasper Lukkezen

A master class in policy research

*A conversation between
James Heckman and Laura van Geest
in memory of Jan Tinbergen*

Laura van Geest and James Heckman both carry on Jan Tinbergen's work into the future. Van Geest is the successor of Jan Tinbergen at CPB Netherlands Bureau for Economic Policy Analysis and Heckman has built upon his econometric legacy and applies it to today's societal challenges. Both economists do so with great pride, though their styles differ. The Chicago economist is outspoken in his praise "My God, I think of Tinbergen as one of the master synthesizers" while the CPB-Director is more deliberate "Using big data, data analytics, I think that would be Tinbergen today. That is also one of the reasons for us to take that on now."

A much greater difference is the current willingness and ability of both politics and policy in their respective countries to benefit from academic insights and evidence. This will turn out be a recurring theme in most of our conversations, which feature Nobel Laureates based in the US and policy makers in Europe.

Heckman: "The immediate structure is poor. The current administration is very unsupportive of using basic research for anything. We have members of the oversight committee for the National Institute of Health who do not believe in the theory of evolution. The whole policy making area, the politics, has become so intense. And the political bickering has gotten so passionate that in much decision making, evidence does not play a very big role. And I

think that is now true at all levels of government. This point of departure is a little bit different, I would bet, from what is going on in Holland.

When evidence plays a role, it is usually something that an advocate who already favours a position picks up to defend that position. I think we are far away from the time that people like Walter Heller, Bob Solow and others were on the Council of Economic Advisors. And Milton Friedman too, I would guess, who in the early 1960s convinced Kennedy of the benefits of the tax cut. They talked about the incentive effects. They talked about things called ‘fiscal drag.’ A whole group of economists influenced government policy to an extent that is not present today at all.

It is not just the Republicans. In the US there are a lot of people like Elizabeth Warren and Bernie Sanders who are touting visions of a welfare state that the Dutch gave up on a long time ago. In the name of reform, they refer to some fantasy world.”

Van Geest: “The Netherlands is quite a different country. Most policy makers take note of the research that is being undertaken and use it to come up with policy measures. But that is also due to the political system in the Netherlands where we have a full representative parliamentary democracy system with coalition governments instead of a first-past-the-post system. This makes sure policy making is still being undertaken across the middle and the middle is still interested in evidence as a means to reach a compromise and in policy that provides results.

Also, in the Netherlands we have this tradition that economic analysis is being undertaken by an independent body like the CPB. Most political parties hand in their election platform to the CPB and the environmental agency in order to have it assessed in terms of effects. That means that some type of evidence-based policy, at least to the extent that it is incorporated in our models, is still being observed.”

Bartelsman: “How important and relevant are academics to the work of CPB, Laura?”

Van Geest: “We see our task as translating the results that academics produce into things that Dutch policy makers can use. I think that is different

than, for instance, in the US where you see very high brow academic economists also participating as policy makers themselves. Like Larry Summers for instance, or Alan Krueger in the past.

Most of the academic research is done on larger countries like the US, the UK or Germany and we have to be careful about translating one-to-one whatever is happening in the US to what is happening in the Dutch context. And finally, if academics are really into being a top academics they sometimes need to be very narrow in their research; more specific than might be of interest to a policy maker.”

Bartelsman: “Professor, when you set your research agenda, to what extent is it actually driven by questions from policy makers?”

Heckman: “There is coexistence. Most people who are sincere go into academic life in economics because they have genuinely deep interest in a certain societal question. Some people might go into it because they like the math, and there are plenty of those. But put that to the side. There are a lot of people who go in because of intellectual curiosity and also because they are seriously interested and concerned about the questions.

However, funding and support are critically based on convincing people that what you are doing is socially important and will have implications. And following suggestions about what is important and working on topics that are considered, quote, ‘policy relevant’ topics clearly shapes the way that a lot of economists will do research.

This was true for people like Saez and Zucman, even though their initial research has been shown to be flawed and misleading. I do believe they got into this question looking at new data sources – first IRS data and then later other sources – to examine and witness an increase in wage and income inequality. That really did fuel a broad discussion when it was picked up in the mainstream of politics and economics.

The structure goes in that direction: it is a flow from ideas to policy. But, having said that, there is a huge amount of policy advocacy and that is what drives the money. Nowadays most of the research funds will go towards people who are promising some billionaire, or some government agency that they are going to do some spectacular intervention. Most of this research is

short term in nature and long-term research is just not valued. Bill Gates and Warren Buffett and these people . . . Yeah ...”

Van Geest: “Researchers at CPB are on the one hand driven by our mandate, what people expect and require us to undertake. We are supposed to make forecasts on the economy and look at the labour market and so on. But of course, within these broad themes, researchers can still take their pick and there I think we benefit from the ideas that the young researchers have. For instance, driven by the inclinations of young researchers, we recently started to look into the use of big data or data analytics.

Inspired by the Tinbergen year we recently did research to see whether inequality increases or decreases among migrant groups and the disappointing result was that inequality does not diminish over time. Now we are going to look into what the drivers are of this finding. In a way, this was inspired by Professor Heckman’s example of not just looking at children at a higher age, but also at young children and not only looking at cognitive elements but also at the non-cognitive.”

Bartelsman: “Laura, if you could channel the spirit of Tinbergen and if he were still director of CPB, what do you think he would find the single most important topic on which CPB should now work?”

Van Geest: “It depends on the way you look at Tinbergen. On the one hand you could say that Tinbergen was at the root of doing more econometric research and using data. Using big data, data analytics, I think that would be Tinbergen today. That is also one of the reasons we will take that on.

On the other hand, Tinbergen also made more normative statements. To make sure that everyone wants to listen to our research, we let our analysis speak for itself as opposed to having our own normative statements. Tinbergen is well known for topics like inequality and our recent look at this data points to the need for more research. Tinbergen was also in favour of work on development aid, but that is beyond our mandate.”

Heckman: “Tinbergen was a social democrat, he was very interested in maximizing social welfare. Ragnar Frisch in Norway, with whom

Tinbergen shared his Nobel Prize, literally talks about trying to use survey methods to elicit what the welfare functions of societies in Western Europe are. Tinbergen was to feed this into this notion of social planning.

Tinbergen moved, you can see it in his work. He moved with the times, he moved to questions that were basically very topical, highly relevant, and he even moved into areas that were not yet topical. I mean income inequality, if anything, was declining in the 1960s in most Western countries.

What he did though, is provide an analytical framework for thinking about inequality. He was driven by an ability to put big factors together in a fairly simple model, a tractable model, and then go off and do the welfare calculations based on the data.

I think Tinbergen would still continue with that emphasis. But he would rather be more acutely aware of what has been learned since then. About tax policy, about the role of investment, understanding the life-cycle of skill formation better, and understanding the role of the family which really did not play a prominent role in his work.”

Bartelsman: “Both of you have mentioned the availability of data and CPB is trying to gear up for big data analysis. In a way, this is a hype, but ...”

Heckman: “Not in a way, it is totally a hype! Raj Chetty at Harvard is claiming that with big data you do not need to even worry about causality.

But anybody who says that getting more data of the same type is going to prove causality is just . . . crazy. It is basically believing that sample size determines causality. I honestly thought that we got away from that eighty years ago. When you read the first issue of *Econometrica*, the opening statement – and this is ironic, because it is 1933 when the first macro data was just becoming available – tells us ‘Right now we are getting more and more, quote effects. We are getting swamped by these effects. Yet, we do not know how to interpret those facts and we need a framework.’”

Van Geest: “We use big data for forecasting and sometimes you have very big samples and then everything seems to be specifically significant. Using big data techniques is a way to find which factor is more important than others. That is what people use the data analytic methods for.

Yet, we are still of the classic causality school. These observational results are more an inspiration to undertake experiments than to say ‘well let us go for this type of a policy for the whole nation’. It may seem very attractive, but if we do not really know how it works, it might bring counterproductive results. That being said, you can use big data and still come up with a causal effect.”

Bartelsman: “Professor Heckman, your work generally uses observational data in combination with theory that allows policy counter-factuals. What is your opinion of using results from small-scale experiments for policy?”

Heckman: “I am currently conducting a whole series of experiments out in western China, so I am certainly not opposed to experiments. They are a good source of information. But we can also learn about important social problems without running experiments.

The prime example of this is from 65 years ago now, by Doll and Hill, on the statistical association between smoking and cancer. Nobody ran an experiment! I guess, indirectly Hitler was the first experimentalist in this area as he forbade German women to smoke and in the aftermath of that German women had less lung cancer. But the fact is that the body of statistical evidence became overwhelming.

There are a lot of interesting economic questions that are simply not answerable, at least using current techniques, with experiments. For macro tax effects we can design a little experiment and then say ‘yes, Joe Blow worked more when his taxes were cut’. But that is a lot different from saying what happens at the macro-economic level when all Joe Blows from the entire country get a tax cut and all labour and capital markets adjust, migration occurs and so forth.

We must remain sober about what can and cannot be learned from an experiment and when other methods are preferable. This is where I think Tinbergen, and Frisch, and most good economists would realize that it is not just a specific kind of the exogenous variation, it is not just ‘experimental variation’. It is putting all the data together and telling a coherent story.”

Van Geest: “At CPB, we take a pragmatic approach. Take our new labour supply model, Micsim. We designed a structural model, using economic

theory. We then fitted it to actual data, using a very large data set. And finally, we took advantage of ‘natural’ policy experiments to check the validity of the model. The results of the model and reality were well aligned. We now use the model to simulate all kinds of policy proposals.”

Heckman: “Exactly. I am very happy with what you just said. What you just described is the process of what economic science should be.

In the philosophy of science, there is a concept called abduction. What abduction really means is searching for the best explanation. It means, you have a question and you want to bring the best evidence to bear on it, from theory, from natural experiments and so forth. It means *not* saying ‘I have an experiment, it must be an RCT and it must do ...’ That is methodologically driven. You are describing what is very commendable. You are describing what economic science really should be which is putting it all together and not privileging one kind of information over another. I am sure Tinbergen, were he in on this conversation, would agree with that. He put together little bits of snippets here and there. Even in his books on inequality, but certainly in macroeconomics he drew on a bunch of natural experiments. He was quite the scientist.

The example I give is that if we ever saw a deceased person in our vicinity come back to life, this one event would be far more powerful than a hundred million big data regressions on living people. That is the point. It is the surprise of the evidence against the hypothesis. It is not the quantity of numbers that decides the issue or whether it comes from a randomized controlled trial.

My God, I think of Tinbergen as one of the master synthesizers using every piece of information, putting it all together, developing frameworks to put it together, and listening to the evidence. I mean, he changed his mind as his paper was written; he was always in a learning process. That is what scientists are.”

Van Geest: “I would like to ask you of what result of your research are you really proud of?”

Heckman: “Two things: the importance of the first few years of child development and a better understanding the role of family. Initial

experiments on early childhood education did not show an immediate effect on IQ, while longer period follow-up studies showed a positive impact of early intervention. This contrast brought to the fore the importance of social and emotional non-cognitive skills. That has now found its way into the lexicon of economics and policy. We no longer just evaluate programmes by their impact on IQ or on achievement test scores. There are richer skills than IQ. There is dynamic complementarity between multiple dimensions of development. I am most proud of this work and the influence it has had on creating opportunities for everybody. If we reach people at the beginning we are going to get a much better end.”

Van Geest: “How did you manage to get this message taken up by policy makers?”

Heckman: “Let me be very blunt. It is not that politicians were reading my papers at night ... although Obama lives two blocks down south of my house in Chicago. I have no powers of persuasion. I wish I did. I wish that when I open my mouth to the world, when I Twitter, the market would jitter or something. But I am not like Trump.

The way it was, is that there were policy advocates who promoted these ideas. These people did know in their heart of hearts that evidence-based policy was the correct path. They kind of forced the work under the noses of politicians who were indifferent and who were maybe even hostile. But they sold it by telling the politicians that it supports their case.

It really had impact because the advocates liked what I had to say. They really started moving away from just looking at IQ and achievement scores to non-cognitive skills. In convincing them about the value of early education, I also helped convince them to think about the structure of how skills develop. I do believe that was partly a result of my writing and other research as well.

Then, to be honest, it did not hurt that I also just happened to have a Nobel Prize. No, it mattered. Maybe uncritically so. I think I was favoured in that, so I am not going to attribute to myself any great power of communication.”

Van Geest: “Your story underscores that building bridges between academics and policy makers is necessary to ensure that useful research gets taken

on. I think it confirms the roles of an institution like CPB, or having people who take on this role. Well, thank you.”

Heckman: “Let me paraphrase John Von Neumann. ‘Any science that becomes so inbred that it does not look at data, does not look at the world and does not regenerate itself turns into something very degenerate and will hit a wall.’ Even though basic research may not have an immediate payoff, I think getting these ideas out there makes a big difference. Remember Keynes’s famous quote on the defunct academic scribbler influencing the madman politician.”



Joseph E. Stiglitz is Professor of Economics at Columbia University. He is also the co-chair of the High-Level Expert Group on the Measurement of Economic Performance and Social Progress at the OECD, and the Chief Economist of the Roosevelt Institute. He is a former senior vice-president and chief economist of the World Bank, and a former member and chairman of the (US president's) Council of Economic Advisers. He is recipient of the 2001 Nobel Memorial Prize in Economic Sciences.



Ángel Gurría is Secretary-General of the Organisation for Economic Co-operation and Development (OECD). He has firmly established the Organisation as a pillar of the global economic governance architecture and a reference point in the design and implementation of better policies for better lives. He has also heralded a new growth narrative that focuses on the well-being of people, paying special attention to gender and youth.

Moderator Esther-Mirjam Sent
Editorial assistance by Jasper Lukkezen

Fellow travellers in a quest to improve lives through better policies

*A conversation between
Joseph E. Stiglitz and Ángel Gurría
in memory of Jan Tinbergen*

“**N**ormally in Japanese protocol, you bow according to the importance of your interlocutor. In my case, I could not bow any further because of my age, but actually my forehead should be touching the ground.”

As Ángel Gurría, Secretary-General of the OECD, enters the room in the Château de la Muette at the OECD headquarters in Paris, he expresses his appreciation of professor Joseph Stiglitz. The two men know each other partly because the Nobel laureate co-chairs the OECD-hosted High-Level Expert Group on the Measurement of Economic Performance and Social Progress.

Today, the men seem to have a lot in common. They are both concerned about inequality and poverty, and both connect academia with policy. The way they do their work is rather different though. While Gurría and his staff provide policy recommendations directly to governments, Stiglitz relies on his academic status and his power of persuasion in presenting his view to a wider audience.

Nobel laureates meet policy makers

Their career paths are also quite distinct. Before becoming head of the OECD, Gurría had a career as a public administrator and politician in Mexico, his country of origin. He has always been on the practitioners' side. "It basically means being connected with government and solving practical issues every day."

Stiglitz: "My own story is a little bit different. I began in physics and mathematics and it was my concern about social and economic problems that brought me to economics. Basically, it was my concern about inequality that led me to become an economist; and also my concern about unemployment, about discrimination and about economic volatility."

Sent: "The topic of inequality has stayed with you your entire career."

Stiglitz: "At the time, I thought things were bad. But after I started studying them, inequality got really, really bad – so I stuck with the topic. Over the last ten years I have returned to it with a lot more gusto because the problem has gotten so much worse."

Sent: "How does the OECD regard poverty?"

Gurría: "Poverty can be seen as one manifestation of inequality, defined in developed economies as an income below fifty percent of the median income or something similar. It is in this group, that crises have the most impact and the question of inequality keeps cropping up.

Over the years, the topic has been getting more and more attention. The titles of the main OECD publications on the subject provide a clear pattern. In 2008 we published *Growing unequal?* In 2011, we unfortunately erased the question mark and published *Divided we stand*, as the inequalities were getting bigger. By then, we were able to see the impact of the first years of the crisis.

Having established the fact that inequalities were on the rise, we published the third book in this series called *In it together*, in which we traced the origins of inequalities and poverty to mostly the labour market. And finally, last year, *A broken social elevator?* came out, which highlights social mobility or the lack thereof.

The fact that we are talking about poverty means that people are failing to escape. It means that those who were neediest and most vulnerable stayed needy and vulnerable. It means that inequalities cluster and become obstacles to growth. When inequalities become so important that they affect the ability to actually have and then take advantage of the opportunities themselves, they become inherent. Then, even if you provide people with the same opportunities, they will take advantage of them in different ways. This has an impact on growth as well. Health, educational levels and skills – they all have an effect on productivity.

The great challenge is how to break through the impact of family background on the performance of the next generation. We have not been very successful at that. In fact, we seem to have given up.

The issues go further than the poor in our societies. The numbers in *Under pressure: the squeezed middle class* suggest that often so-called middle class is about three months away from falling below the poverty line. This is a vulnerability we never saw before.

This vulnerability comes with a practically level wage growth over the past years and rising costs making it harder to remain in the middle class. Things that make you middle class or prevent you from being poor, like housing, education and health care, become more expensive relative to wages. This also goes for entertainment and food, and the result is another squeeze. You either move into poverty or hang onto the middle class by your fingernails.”

Stiglitz: “There is a very strong moral argument about inequality being wrong, which I think is very deeply rooted in our value system. But the perspective is on the rise that inequality is not only morally wrong, but also has adverse effects on our economy. In addition, it is dividing our societies and changing the nature of who we are as a people and as a society.

There is actually research in behavioural economics that deals with diverging societies where those at the top become different from those at the bottom. These developments are really changing the nature of our society. It is dividing us and our politics in a way which undermines what we thought of as ‘our deep-rooted values’. As a result, the argument that we ought to be doing something about it has now become very compelling.”

Sent: "Could it be that economists have been too enthusiastic about efficiency, about people maximising their utility and firms maximising their profits?"

Stiglitz: "Other economists', as I like to call them, have played a very significant role in the increase of inequality in three ways. One way is neglect. The standard model of macroeconomics is the representative agent model, which says inequality is not important. It does not have any effect. But that is just wrong. Hence, it was this model that turned attention away from inequality. Secondly, for some it was worse than inattention. It was hostility. Bob Lucas famously said during his 1997 Kuznets Lectures that the most poisonous subject for economists to talk about was inequality. He was not only ignoring it, but actively saying economists should not talk about it.

Then the third way is actually a belief related to the second, that if you just kept on growing everybody would be better off. This is the so-called 'trickle-down doctrine', for which there never had been any evidence, though in fact we now have evidence against it.

These arguments illustrate the misuse of economics, as economic theory has always made it clear that trickle-down economics might not be true. One of the most famous examples of this is the Stolper-Samuelson theorem that opening up trade might make the country better off, but would leave workers in the advanced countries worse off. I consider Paul Samuelson one of the most brilliant Nobel Prize winners.

However, if you do not understand the theorem, perhaps because the mathematics are too difficult, you can still grasp the logic. If you trade with a less developed country, you import unskilled labour-intensive goods, and that reduces the demand for unskilled labour. Which then in turn reduces the real wages of unskilled labour in your own country.

To me, this misuse of economics can be traced to Milton Friedman and the Chicago School, who were trying to sell us their right-wing political agenda. For instance, they were saying, under the guise of economics, 'do not worry about inequality' when economics was actually saying 'do worry about it and do so now'. Let me give you another example. The Chicago School said shareholder capitalism would lead to greater efficiency. However, I have proven with Sandy Grossman that shareholder capitalism does not lead to the well-being of society."

Sent: "To which economists does the OECD listen?"

Gurría: "We have something called NAEC, new approaches to economic challenges. Within NAEC, we bring people like Joe [Stiglitz, *ed.*] together with practitioners in other disciplines, and we ask them to come up with policy recommendations.

Sent: "But what Professor Stiglitz points out is that sometimes academics are activists instead of scholars. How would you identify the activist?"

Gurría: "Basically, I would say advocacy is legitimate because people cannot be neutral about everything. In fact, if they were neutral about everything they would probably be dead, because to be alive means to feel something and also to think. I want academics to think and conclude that one thing is better than its alternative.

But what you cannot do, is to abuse the discipline of economics and try to justify what is in fact ideological. You have to be careful. As soon as you paint your conviction with some coating of science in order to make it more credible, you might be harming millions of people.

Public policies influence the lives of millions and millions of people, who suffer the consequences if you get it wrong or who benefit if you get it right. And getting it right depends on evidence. This is where academia comes in, to join forces with institutions like OECD. Evidence is crucial even in times of fake news. Was it Al Gore, who said 'denial is not a river in Egypt?'"

Sent: "It was a Saturday Night Live thing, I think. But how do you maintain your neutrality?"

Gurría: "No, we are not neutral, we are objective! We are evidence-based. At an institution like the OECD, you have to leave a lot of the emotional baggage behind you, because being objective and looking at evidence becomes crucial. The fact that being objective is paramount does not mean that you do not prefer or even recommend one particular course of action over the other. I think Jan Tinbergen was a very good example of somebody who was both objective and influential.

But the world has changed so much since then. The mess that we are in now! It took nine months to form a government in the Czech Republic, seven months to form a government in the Netherlands. Our friend Mark Rutte had a coalition of two parties with a ten-seat majority. Now he has a coalition of four parties with a one-seat majority.

Boris Johnson just lost his conservative majority because one guy crossed the aisle, regardless of Brexit or no Brexit. In Italy we just saw the recomposition of government, in Spain there is enormous fragmentation. And then if you go to Sweden of all places – Sweden being a most egalitarian place – they have forty percent of the votes on one side, forty percent on the other, and twenty percent right in the middle which are the extreme right-wing. So, then you go to Finland and then you go to Estonia and then you go to less known cases.

All these cases everywhere are united by a single thread. People are extremely disillusioned. That is a serious challenge.”

Sent: “How do you, Professor Stiglitz, manage the challenge of balancing between objectivity and influence?”

Stiglitz: “First, I would like to praise what the OECD has been doing, because many economists study their own countries. In doing so, we tend to miss out on common trends. The OECD was founded to understand these trends, to be a think tank for the advanced economies.

One of the things it has done, which is particularly important, is gathering and standardizing data. Most academics use data, but they do not have the resources to gather and standardize these.

For instance, when we talk about inequalities, we sometimes tend to focus just on income. However, it actually has many other dimensions too. And with the OECD data, we become aware of them. The data enable us to identify where the problems are most acute, and to begin the process of analysing the causes and consequences.

And this is where academics play an important role, in the analysis of mechanisms. Take, for example, the role of demographics, the changing family structure, which is something the OECD has pointed out. Academics, in turn, study the causes and consequences.

Having said that, interpreting the facts is not always easy. The world is too complex, you have to make decisions about what pieces of evidence are critical. So, one of the things that often has disturbed me is that various institutions make claims—based on what they call evidence-based research -- that I think are just wrong.

At one point, some claimed that ‘evidence-based research’ said that private schools were better than public schools. This is research by people wearing what I would call ‘ideological blinders.’ As more and better data accumulated, it became clear that that claim could not be supported. One has to be careful with the data that one looks at; and data seldom speaks to the critical issues by itself. We need theoretical lenses to understand and interpret.

Similarly, at some point central banks all over the world said that financial deregulation would be a good thing. They argued that it was ‘evidence-based.’ Since the 2008 crisis, it is widely understood that financial deregulation can lead to instability.”

Gurría: “And that blew up in our face.”

Stiglitz: “I have watched this process over and over again. In my opinion, institutions and their professional civil servants should help create stability. At the same time, they should be listening to academics. An institution I was very critical of was the IMF. Academics kept pointing out where their assumptions went wrong and where the policies they were pushing had adverse effects.

It took years, but eventually there was a change. Dominique Strauss-Kahn slowly changed the way the IMF looked at the world, and later Christine Lagarde continued on that path. In the end though, a particular event – the end of the world, as the IMF saw it – helped probably just as much as these individuals did.

Thus, as inequality grew and as the financial crisis spread around the world, the IMF shifted its position on capital controls and the importance of inequality. When there is enough evidence against a position, eventually our societies typically do move. Take Lucas’s position that inequality is not that important. You will not find a lot of people agreeing with that today.”

Gurría: “The title of the G7 was *Inequality*. Not everybody was equally enthusiastic about that one, but yes that was the title.”

Sent: “Going back to Tinbergen, he was the first director of the CPB, the Netherlands Bureau for Economic Policy Analysis. And he developed the so-called Tinbergen rule, the idea that if you have a big econometric model you need the same number of instruments as you have goals. Is this insight of Tinbergen still relevant today?”

Stiglitz: “Tinbergen made an analytic point, so I do not want to say that he was wrong – but he *was* wrong! Tinbergen’s rule is not generally applicable once you incorporate uncertainty in a *richer* way, because in a richer model you can never have as many instruments as you have objectives. If you are trying to change probability distributions, you have so many parameters. This conclusion is reinforced, once one takes into account the additional layer of complexity added by climate change and inequality.

And even if you are doing monetary and fiscal policy, and are aiming for stable inflation and low unemployment, you must now recognize that coordination between monetary and fiscal policy is necessary to achieve both. If monetary policy just focuses on inflation, it imposes enormous risks upon the workers.

But more importantly, we need to acknowledge that the world is more complex in a number of other ways, and that we are inevitably going to have insufficient instruments to do all the things we want to do. We are constantly making trade-offs, which inevitably involve judgments and values.”

Gurría: “Tinbergen did not have the capacity to understand the trade-offs or have a model that would provide multiple elements or multiple inputs, because this was a time in which we used punch cards to model the whole world. The amount of information and number-crunching capacity that you have today makes it possible to analyse a lot more.

And these analyses give you many policy targets as well. We simply do not have that many instruments. We never had. We have monetary policy ...”

Stiglitz: “Which is not working very well.”

Gurría: “... and we have fiscal policy, which is constrained for a number of reasons. More important than the uncertainty in itself, which Joe already mentioned, is the complexity. Fifty years ago, the instruments that you could use were predetermined. Today you have the possibility to go much deeper and find a specific combination of instruments that might help to achieve policy objectives. We can then analyse this in more detail.”

Stiglitz: “This touches on a controversy that Tinbergen had with Keynes. Keynes was very sensitive about some of the econometric difficulties which Tinbergen skipped over. Let me mention one that is particularly relevant today, which we would call non-stationarity. Keynes grasped that the world was changing sufficiently rapidly that one would never be able to get the data for doing econometrics with the confidence that macroeconomists would like to have. This is what we saw in the run-up to the 2008 crisis. Those in the financial markets and those in the central banks were saying: ‘we are in a new economy’. Yet, they were using data as if it were the same economy. They said: ‘do not worry, we have now solved the business cycle’, just as we were building up the conditions for the greatest crisis since the Great Depression. Keynes would have said ‘yes, that is exactly what I would have told you and warned you about’. Tinbergen was not as sensitive to those issues, I think. Another example is provided by the school of people who believe in rational expectations, with the full and efficient utilisation of past data. Well, a very big thing going into these models is the assumption that our climate is not changing. But now we know our climate is changing. What we do not know is how fast it is changing and how it will affect our societies. And that is what we would call, to use a technical term a ‘non-stationary process.’”

Sent: “Some economists rely on stationarity to make predictions, and some economists, such as Professor Stiglitz, stress the importance of non-stationarity. How do you traverse this complex academic landscape, Mr. Gurría?”

Gurría: “It helps if you understand how the OECD is structured. In the OECD, we have a part that is a ‘sausage factory’, which produces our flagship publications. Everybody is eager for them, even in order to criticize them, but they are all waiting for it.

Nobel laureates meet policy makers

These publications are based on one hundred and fifty structures called committees, subcommittees and working groups who are specialised in one or two single issues. For example, in education we have early childhood, vocational training et cetera. These committees provide in-depth expertise on each topic. We put these different sources of information together and look at the policy interaction, we break down the silos in our flagship publications. We should be doing more of that, but *Going for growth* is our greatest effort in that domain. There we try to put forward five basic recommendations for each country every year.

In addition to the sausage factory, we have a *boutique element*. This brings in new and different perspectives, probably on how we are going to shape the sausages in five or fifteen years' time."

Sent: "Would this include your base erosion and profit-shifting project?"

Gurría: "Let me tell you about the exciting things that are happening. Today, we have a meeting with the steering group of what we call the inclusive framework. That involves one hundred and thirty countries getting together in order to launch the *home stretch* of digital taxation.

Today, hundreds of countries within a network are already automatically exchanging full information on 47 million bank accounts. All this is worth five trillion dollars, one third the size of the US economy. Only a few years ago, governments needed a specific request which had to be accompanied by evidence of any wrongdoing, and then in many cases they still got very little information from the bank because it was in a tax haven."

Gurría pointing at Stiglitz: "This gentleman here has kept us on our feet for the last five years, because he has been very critical of it."

Stiglitz: "I am just very supportive of the work ..."

Sent: "But?"

Stiglitz: "But it has not gone far enough. The OECD is a political institution. It is a think tank formed by the advanced countries. And quite frankly,

the problem is the United States. The digital companies in the US make a lot of profits, are very happy not paying taxes, and use their political influence to further that objective. Did you know that Apple pays 0.2 percent of its profits in taxes in Ireland?”

Gurría: “Ah, the famous case of Apple.”

Stiglitz: “But Google is no different. When Apple got criticised in Ireland, they moved to Jersey. That tells you three things about Apple. It is committed to tax avoidance. It does so with the same ingenuity with which it makes products that people like. And it uses its political influence. But primarily they are not concerned with what would be good for the global community. What would be fair for developing versus developed countries? They are just looking at how they can ensure that they are not paying taxes.”

Stiglitz turns to Gurría: “I view our role as complementary. I hope you appreciate it.”

Gurría: “Oh, absolutely ... It is people like Joe who are constantly reminding us how far we could go if there would be a political will.

Joe talks about companies that are using the system to lower their tax rate dramatically or not to pay taxes in practice. What is happening now is that this has become political. The working person, the middle class, is no longer willing to see richer people taking money out of the system in this way. They say ‘¡Basta!’.

Fortunately, we are very close to reaching what I would call an international agreement on a criterion for taxing digital activities. It could be passed within a few months or perhaps a year, and if it does there will be a level playing field.”



Sir Christopher Pissarides is Professor of Economics at the London School of Economics and Professor of European Studies at the University of Cyprus. He specialises in the economics of labour markets, economic growth and structural change, especially as they relate to market frictions. In the last decade he has worked extensively on the employment implications of automation and artificial intelligence and on the emergence of China as a global economic power. His book *Equilibrium Unemployment Theory* is an influential reference in the economics of unemployment. He is recipient of the 2010 Nobel Memorial Prize in Economic Sciences.



Eric Wiebes was appointed Minister of Economic Affairs and Climate Policy in the third Rutte government in 2017. Prior to this he was State Secretary for Finance in the Rutte-Asscher government. Eric Wiebes was deputy mayor in Amsterdam from 2010 to 2014 with responsibility for the North-South metro line project, for traffic, transport, infrastructure, air quality and for ICT. Mr Wiebes was trained as an engineer in Delft, has worked as an energy engineer at Shell, as a consultant at McKinsey & Company, and as Deputy Secretary-General of the Ministry of Economic Affairs.

Moderator Eric Bartelsman

Editorial assistance by Jasper Lukkezen

Building a bridge to the future

A conversation between
Sir Christopher Pissarides and Eric Wiebes
in memory of Jan Tinbergen

“**A** matching problem with extreme friction.” That is how Sir Christopher Pissarides describes the process of getting the participants for this conversation together at the same date and time. The quip refers to his research on labour market frictions for which he received the 2010 Nobel prize jointly with Peter Diamond and James Mortensen. In this research they explain why some markets fail to clear instantaneously. Their explanation underlines the importance of labour market institutions in determining unemployment and wage inequality.

His counterpart in this conversation is the Dutch minister of Economic Affairs and Climate, Eric Wiebes. Trained as an engineer, Wiebes is faced with the challenge to both stimulate economic growth and induce an energy transition. He sees strategic investment in climate adaptation as the way to combine the two and finds a willing ear in professor Pissarides, who has recently done research on the long run implications of innovation and technology.

Bartelsman: “I find myself in a conversation with practitioners of the two least trusted professions in the world, at least according to a survey that figures prominently in the new book of the most recent Nobel Laureate Esther Duflo.”

Nobel laureates meet policy makers

Wiebes: “I realize that. I started my career at Shell when there was a lobby against Shell. Then I became a consultant at the time that consultants were really unpopular. And now I am a politician and again politicians are really unpopular.”

Bartelsman: “How do you go about gaining trust again?”

Wiebes: “The only way is to go step by step. Do things that make sense and that you can explain. If you just try to be popular as a person yourself or even be trusted as a person, then you will get nothing done.”

Pissarides: “I agree with that entirely, of course. Transparency is very important. Especially as a politician, you need to show what you are doing and why you are doing it and to explain it and then little by little you regain trust.”

Bartelsman: “Continuing with trust, Minister Wiebes, the cabinet you are in has a motto that could be translated as either ‘Trust the future’ or ‘Building a future we can trust’. Which one is it?”

Wiebes: “The interpretation of the former is that the government itself has confidence in the future. But there are only a few Cabinet members and for the rest of the Netherlands trust in the future is unstable. There are worries about purchasing power and wellbeing. The world is changing. It has always been changing. But nature and climate are increasingly worrisome to people. So, the only way we can build confidence is to make clear that ‘Yes, we can do something with nature and climate. But yes, there also will be some increases in purchasing power.’

Over the last 20 years the increase in purchasing power was not very impressive. If we do nothing, then over the next 20 years it will be neither purchasing power nor climate. Green growth is what is necessary. We have to start now. That was the idea - the economy is going well at the moment, so we better boost investment now. That is the way to build a future we can trust.”

Pissarides: “Interestingly, the minister is concerned about purchasing power over the next 20 years in the Netherlands. The indebted countries of the South

are when it comes to investment still below where they were in 2007. I wish my country, Cyprus, had the current purchasing power of the Netherlands. We would be happy if it then were to remain stationary over the next 20 years!”

Bartelsman: “Will the EU fiscal stance allow Southern countries to make the necessary investment?”

Pissarides: “During and after the European debt crisis of 2012, my main concern was that the one item of spending that was cut most - because it is easiest to cut politically - was public investment. Public investment is absolutely essential for growth and the improvement in living standards generally. I was critical that the austerity policies the Troika imposed on the indebted countries was doing long-term damage to their economies. They tried to correct the short-term fiscal imbalances by doing long-term damage. The ultimate resource, human capital, suffered. Which brings my second concern, which is that the European North is drawing apart from the European South.”

Wiebes: “When you say public investment is essential, we understand that. But then the immediate next questions are: What is the right level of public investment at the moment and what is the right type of investment? It may be true that over the last years we have not invested enough, but we should not invest too much either. The question is how to judge the proper level of investment and the type of investment.”

Pissarides: “We have to distinguish the prioritization of projects from how much investment to do. Prioritization is a political decision. A government may choose on the basis of promises made in their pre-election manifestos or on the basis of current political support. As an economist who is not connected with any political decision making, I would prioritize on rate of return, even if it is not easy to calculate for public investment.”

Wiebes: “Getting a good estimate of the rate of return is problematic.”

Pissarides: “But the calculated rate of return should not be the only criterion. Another criterion is preparing a country for future technologies.

Priorities now should be given to digital technologies. Are we ready to take on self-driving cars, are all the enablers in place for companies to adopt digital technologies and can the public sector move forward to a digital provision of services? Those are the public investments that I would be making now.

Let me give you a concrete example for your country. You have one of the biggest ports in Europe. You could have platooning, digital trucks carrying cargo. Providing the infrastructure for that would be something that will contribute to growth.”

Bartelsman: “You both agree investments are needed to enable digital innovations and to enable the green transition. If you have public capital in place, then hopefully the private investment will come. Now, how do you avoid rent-seeking? How do you guide and monitor public investment?”

Wiebes: “That is a big question. Right from the moment we announced the initiative to have public investment for growth and the green transition we were swamped by lobbyists with whole lists of concrete projects.

On this point, I am critical towards Professor Pissarides. You said it is obviously a political decision, but if you have politicians, they do politics and you do not necessarily get good investments. You get short-term things for a part of an electorate. The trick is to have objective standards. That requires some distance from politicians. If you let politicians play with money, it immediately gets spent, but does not necessarily lead to more welfare.

We are struggling with this. How to actually get the right governance and decision process to objectively judge different investment opportunities without too much political interference.”

Pissarides: “That is where you look to the business sector and to the household sector, to see what needs they have. For example, if you get parents complaining that there is no good infrastructure to take children to schools, then obviously you might want to prioritize that as a policy decision. When you have public investment projects that are reasonable on economic grounds, but you cannot calculate precisely what their rates of return are because part of the return is social, then you assess social value through interaction with the business sector and the household sector.

But it is good to hear a politician saying we should not leave these things to politicians.”

Wiebes: “Self-criticism is the most valuable criticism.”

Pissarides: “There is probably more influence of politics on these decisions than we think. Further, public investment decisions can have long-lasting effects. Look at the impact that Thatcher had on the East End of London for example. Her public investment priority was to revive the old port, and now it is *the* place for young professionals and the financial sector to go. It was entirely a political decision.”

Wiebes: “Obviously, the immense welfare in the Netherlands must have come here either despite politicians or owing to politicians. Funds are distributed by politicians after being allocated by parliaments. But we think currently that the process improves if experts look at these extra funds and see what the best allocation is for future economic growth.”

Pissarides: “I consider that entirely accurate. When Thatcher decided to bring East London back to life, experts recommended to invest most public funds into building a light railway that runs from central London to Canary Wharf and to build an airport in the middle of East London which is the London City Airport. Politicians do not necessarily know how to achieve the political goal, so that is where the experts come in.”

Bartelsman: “‘*f*an economist tells you to ‘just do carbon pricing’ and you raise fuel prices, the people get their yellow vests out. How do you formalize the expert process and then explain the advice to the population?’”

Wiebes: “Well, up until now, it was the politician who did the explaining, but I am happy to have the expert join me.”

Pissarides: “Politicians have the skill to judge the mood of the public and see what they can sell. For example, the economists’ preferred option tax instrument – a fixed or poll tax, for everyone with no disincentives – would

also bring riots in the street. It would not be acceptable. So, politicians start considering other options, such as progressive taxation or proportional taxation, and explain what each one implies. Then the politician decides on the basis of political representation or what would be acceptable to the public.”

Bartelsman: “I want to turn to threats of the new technology. People are worried that the robots will take away our jobs, that the social networks will invade our privacy, and that the tech giants will monopolize the rewards of our work.”

Wiebes: “Progress is a scary concept, because you are well aware of what you may lose, but you can only be curious about what you may gain. It is my job to communicate that doing nothing is even more scary. You might find robots scary because they could take your job. But if other countries install robots and take your job, it is even worse. Lots of technologies and data applications come with privacy concerns, but outsourcing privacy to the Chinese is not a better option.”

Bartelsman: “What can you do to get the innovation, yet make the innovation be welfare enhancing for all?”

Wiebes: “It takes two steps. First, the challenge is to excel in building welfare in the next twenty years. Next, redistribution will not be very difficult; the Netherlands has always been a champion in redistribution.”

Pissarides: “I am curious, how did you manage to persuade your public that redistribution and social welfare are good things?”

Wiebes: “There is a famous quote of Tinbergen ‘by sharing we profit’. It really is a balance, but the Netherlands is not just physically a flat country, it also is so in terms of income distribution. There are other countries in the world where inequality has risen but that is not so much the case here, with the exception of the top managers of the largest listed companies. The rest remains relatively flat.”

Bartelsman: "Professor Pissarides, you have written that the worry about jobs being displaced by technology may be overblown. Yet, labour market frictions may be quite large, with mismatches in location and skill. What can be done?"

Pissarides: "It is a challenge to manage the transition. There will be more jobs that involve human contact and fewer that involve moving goods. In terms of numbers, it will probably not be bigger than previous big transitions, say from rural agriculture to urban work - in China, forty percent of the population made that transition in the past 30 years. The current transition may be larger in terms of job characteristics, in skill space. So, you need re-skilling, learning how to work in a different environment doing different tasks. That is a challenge that needs to be managed by government as well as companies in collaboration with each other."

Bartelsman: "What kind of government interventions can you think of to aid that transition?"

Pissarides: "The first one is social support to prevent people from sinking into poverty and becoming disenfranchised. In the Netherlands you are good at doing that, but not many countries are. Next, the government needs to collaborate with companies to do the upskilling and training. Companies cannot be expected to bear the whole cost of the training due to poaching by other companies. The government should subsidize training, even for older people, similar to the support that they give to university education."

Wiebes: "You cannot escape the economic rationale for subsidizing lifelong learning. All our investigations about growth in the Netherlands show that human capital – keeping people up to date with the latest technologies and insights at a later age – is important. We have been discussing this topic in the Netherlands for at least ten years. And yes, we have done things, but not enough, that is well understood. Still, this is not something that you would finance from an investment fund because it is a recurring effort."

Pissarides: “Obviously, finding a good way to fund it is not easy. That is why individual accounts might be something to look into. Some countries, for instance Singapore, have clever programmes for worker training.

Another issue is that the new types of jobs that replace the ones being lost are more female friendly than male friendly. One of the challenges that need to be faced is how to persuade men who lose their jobs in industry, in manufacturing, or in transport to join the sectors that traditionally have attracted more women. This needs to be done because, according to academic research, that is the direction in which the non-automated jobs are moving. In my view, we need to fight those gender distinctions. All jobs should be equally viewed by all ages and genders. But of course, it takes time to change these customs and habits of people, it takes time to change society. Ultimately it is – once again – the job of the politician to persuade people that this is the way the world is going and that we need to instil greater equality rather than just talk about it.”

Wiebes: “The Netherlands has increasingly become a service-based economy. But maybe for the first time in decades, we see new demand coming up for technical jobs that are now typically done by men. This has to do with the green transition. We have to install solar panels and heat pumps in seven million houses and we have to completely replace the feedstock of one of the largest petrochemical complexes in the world. Lots of processes need to be redone, based on hydrogen perhaps, and we need onshore and offshore wind. There is just so much to do for people that had been in manufacturing jobs. There is probably a shortage now of technical people to do these tasks rather than a surplus.”

Pissarides: “That is a very good point that Eric Wiebes is making, because he combines the new technology with the environment.”

Bartelsman: “Another worry induced by new technology is tax competition. Do governments cooperate or compete with each other to attract these companies that can produce anywhere?”

Wiebes: “Fiscal competition may be an issue for the headquarters of Facebook that can move every year. But there are many other companies who

have good reasons to be here. For example, we have the largest petrochemical complex in Europe. One of the reasons they are here is because of the available infrastructure: the largest port in Europe, waterways to the rest of Europe. That is more important for them than the tax rate.”

Pissarides: “We do need international collaboration with these new technologies. Besides taxes, it is important to be concerned about international standards on things like intellectual property rights, privacy and the use of data.

Companies will move to the place where it is least restrictive and that is not likely to be Europe. I am not criticizing Europe for that; I am very pro-European in that sense. I paraphrase the President of China who always says about their very market-oriented economy that it is a market economy with Chinese characteristics. So, I say we need growth with European characteristics. We are much more concerned about our privacy, welfare states, and equality than other countries are.

Lots of work remains for policy makers. For example, the issue of safety of autonomous vehicles in Europe has not been sorted out. Someone has to be responsible. If you run over someone in the street driving your car, then you cannot sue the car manufacturer. With traditional vehicles that makes sense, for self-driving vehicles it does not.

The Americans have their new law that says that the manufacturer is responsible for safety considerations of autonomous vehicles. Recently, I had one very senior director of an American motor company recently telling me they are very happy with that because their vehicles are so safe. If they have one accident every one million kilometres, then they would be happy to bear the cost. The law is a game changer for America in terms of producing these autonomous vehicles.”

Wiebes: “I have a question that is unrelated to this topic. It must be very special to be a Nobel Prize winner. What is it like? It has now almost been ten years. I am just curious.”

Pissarides: “It is still continuing the way it was the day after the award actually. I am astonished. I could never believe it before, but I am astonished how your life changes completely just by one award.

Nobel laureates meet policy makers

I doubt whether anything else exists in professional life that is so life changing in one day. The way people look at you, the kind of invitations you get to speak, the way they look back at what you have written in the past, and they take it more seriously. There is more responsibility in what you say, too. You cannot throw remarks like some academic so, you have to be very careful. But I have to say, it has been very good because suddenly all these new opportunities open up, to influence policy and to influence the way people think about the economy – because that has always been my objective. So, no complaints.”

Wiebes: “Thank you. I am happy to hear that.”

SIR CHRISTOPHER PISSARIDES AND ERIC WIEBES



Lars Peter Hansen is Professor of Economics at the University of Chicago. He is a leading expert in economic dynamics who works at the forefront of economic thinking and modelling. He has made fundamental advances in our understanding of how economic agents cope with changing and risky environments. He is the recipient of the 2013 Nobel in Economics Sciences for developing methods to explore the interconnections between macroeconomic indicators and asset price movements.



Peter Praet is a macro-economist with wide-ranging hands-on policy experience. He holds a PhD in economics from Université Libre de Bruxelles and speaks four languages fluently. He served as chief economist for a commercial bank, executive director of the National Bank of Belgium and most recently as executive board member and chief economist of the ECB in the period 2011-2019.

Moderator Eric Bartelsman

Editorial assistance by Jasper Lukkezen

The central bank cannot be the only game in town

*A conversation between
Lars Peter Hansen and Peter Praet
in memory of Jan Tinbergen*

This conversation took place shortly after Peter Praet's retirement from the board of the European Central Bank. Praet guided the ECB through the sovereign debt crisis, dramatically expanded its supervisory arm, and conceived the euro area version of quantitative easing.

Bartelsman: "Do you sleep better now you are retired, Peter?"

Praet: "It was okay. I went through difficult times, but I worked very closely with my colleagues, Mario Draghi and the others, which helped when working under stress. We absolutely faced never seen situations: we had a banking crisis, we had a sovereign debt crisis and we had fears about the collapse of the euro area. Additionally, we had a problematic lack of standard instruments. Interest rates fell very quickly to zero and then we had to carefully design unconventional instruments to stabilize the economy."

The second participant in this conversation is Lars Peter Hansen. Hansen is an American macro-economist who has worked his entire career in academia

and teaches at the University of Chicago since 1981. He received the 2013 Nobel in economics for his contribution to the understanding of asset price movements. His recent work focusses on how economic agents cope with changing and risky environments.

Bartelsman: "Could the ECB have been prepared better if they had better knowledge of economic literature and economic history?"

Hansen: "Some of my academic colleagues have made claims that they anticipated the crisis, but actually I think very few economists really did so, particularly when it comes to the magnitude of the crisis. It was really a collective surprise and it exposed gaps in our knowledge. At least I was surprised by it.

I would prefer not to speculate that something went wrong with monetary policy. There are a couple of things that come to mind there.

I think we expect too much from monetary policy, we expect too much of it. And this actually goes back to something Tinbergen already dealt with when he was building econometric models for policy analysis. Given multiple objectives and limited tools, when macro-economic problems occur a monetary fix alone cannot necessarily prevent a sluggish macro-economic response.

Besides monetary policy, there is a role for financial market oversight. Also, fiscal policy is important. In the U.S., we face some very big fiscal challenges and the same goes for some areas of Europe.

And finally, I think the press talks about monetary policy a lot because its actions are visible and concrete. Yes, the central bank is going to decide on interest rate policy, but other policy challenges and other actors are really important too and they interact with monetary policy."

Praet: "I agree with Lars that too much is expected from the central bank. The central bank was extremely powerful in the financial markets during the crisis, because it has the power to create liquidity. This however primarily allows it to buy time needed to address more fundamental problems."

Bartelsman: "You both warn about expecting too much from monetary policy, does this warning also extend to other tasks of the central bank? Central banks

have taken on, or have been given, a much larger role in macroprudential and financial oversight, next to their already increased role as lenders of last resort.”

Hansen: “Yes. I worry that we are asking central banks to do too much in terms of financial market stability. I think when it comes to financial regulatory oversight, we have to look beyond central banks.

For example, there are thoughts about requiring cyclically-varying capital restrictions on financial institutions. Even though we are currently in a very different monetary situation than when Milton Friedman was talking about monetary policy and ‘long and variable lags’, his insights apply here too. There is still so much for us to understand and we should be careful not to overstate our knowledge base and our ability to control markets. Simpler targets that are clear to the private sector would therefore probably make some more sense.”

Bartelsman: “Some people say that the financial deregulation that took place in the U.S. in the late 1990s was a very direct precursor to the financial crisis and the Great Recession.”

Hansen: “There is an interesting case to be made that the financial regulation loosened up in the US without putting alternative rules and regulation in place to deal with financial stability. There is a big challenge in all this though and that’s the following: if you regulate the banking sector some activities are going to be pushed out towards shadow banks.

The question is therefore: where do you draw the circle? What is regulated, what is not. The things that are not regulated, should be allowed to fail. But of course, if we become spooked about too much lending, we find it hard to let an enormous bunch of non-regulated activities fail. This represents a drag on the whole financial system.

Of course, there are people who in response want to regulate everything. I do not see that as a very good answer.”

Praet: “Since 2008 there has been special focus on regulating the banking sector. This regulation has had basically two objectives. The first one is to reduce the cyclicity of the banks and I agree with Lars that objective was

probably a bridge too far. The financial sector has remained as procyclical as before, in spite of the regulation.

The second objective of regulation was to make the banking sector less sensitive to liquidity crises. History will tell of course, but I think we have made big progress there. There is good evidence that it looks better than before.”

Hansen: “Relying on the models of the financial institutions to assess their own overall risk exposures is itself risky. In the past, the larger banks – not surprisingly – seem to have understated the risk exposure. Relying on bank’s self-reporting alone is asking for trouble.”

Praet: “Well that is true. We run two sorts of stress tests, one top-down and one bottom-up. In the top-down one we take the published information and try to test the system by looking at the impact on the biggest banks. This allows us to challenge the results obtained from the bottom-up test. The difficulty with the bottom-up stress test is that banks learn to game the system as they understand how we work.”

Hansen: “Yes.”

Praet: “The other more complicated thing is that banks in their stress tests do not take their collective behaviour into account, which is the so-called fallacy-of-composition. If everybody cuts their position, it makes sense from the banks’ perspective, but not from the macro perspective as these assets must be held by somebody. In reality, you get a run on the system. It is very difficult to bring systemwide consolidation in the micromodel though.”

Hansen: “That is a fascinating issue actually. Conceptually, because this is where network feedback becomes important. How do you design a stress test that tracks banks’ interaction with each other conditional on the expected central bank’s response?”

Bartelsman: “Lars, you have said in the past that you should do a worst-case analysis if you want to get a robust system. But can you do that if you do not know the general equilibrium feedbacks?”

Hansen: “Sure, let me give a slight refinement of your question. When I say worst case, I always mean in some structured or refined way. Unrestrained worst-case analyses can give you very extreme outcomes that are not very revealing or helpful. So, you always have to find the range of realistic uncertainties. If you do not do that, you just get very silly answers.

As soon as you say ‘we think this is a possibility’, you can start to structure stress testing. Then, in your tests you should have some speculation on the type of feedbacks you consider, so you probably need models to help you do this. Well-conceived stress testing is not a trivial thing to do, but I think how to design such testing is a very fascinating and important area for research.”

Bartelsman: “Lars, you have stated that our incomplete knowledge and understanding of what we are actually doing increases the appeal of simple solutions.”

Hansen: “Now you hit upon a theme I like indeed. And how I translate that in practice is non-trivial. I do think there is a danger in committing to any particular explanatory model. Its specificity can be somewhat inappropriate and the complexity of the model can itself be a contributor to uncertainty.

When the financial crisis hit, academics said: ‘Well financial market oversight is a very complex problem, so it requires a complex solution.’ I agree with the first one. It could indeed be a complex problem. But when your knowledge is limited, that is not necessarily a situation where you want to jump to a complex answer.

Not willing to go for a complex solution because you do not understand the problem in its full detail is however something different than not solving the problem. I would like to make that absolutely clear! There are plenty of structural things you could do.

There is a really interesting analogy here with monetary policy. Many people in the US have the notion to make everything rule based and transparent. For monetary policy this means engaging in things like forward guidance. It is however virtually impossible for central banks to conduct forward guidance properly, because the central bank always wants to have a bit of a wiggle room as there are complexities out there, that might hit them by surprise.”

Bartelsman: "I would like you to follow up on that, Peter. One of the problems of very tightly pre-committed rules is that it opens the door to opportunistic behaviour. Having a little bit of flexibility in how the central bank is going to respond, keeps people a bit more on their toes. What is your take on this?"

Praet: "Well it is a very complicated question because the environment in the last ten years has been extremely difficult. We have had a banking crisis, a sovereign debt crisis et cetera. We have had to clarify the reaction function of the central bank while these events unfolded. The ECB's reaction function is not a simplistic Taylor rule; it is much more complicated. Judgement plays an important role.

When the central bank says 'the rates are going to remain at the present level for the next six months', it is truncating the distribution of outcomes for the markets. By doing so, it reduces uncertainty in the market, because the central bank has strong liquidity tools and interest rate tools at its disposal to deliver on its promise.

But over time, and that is a very serious point, you need to be careful. You cannot use forward guidance with the idea that you always know better than the markets. You will make mistakes and then you will need to come back on what you said and that could harm your credibility.

For the time being, forward guidance has been quite useful for the ECB. We made a big impact on financial conditions and on economic outcomes. Now, of course, the results are not all what we wanted. We think policy did reasonably well, given the circumstances.

Finally, I would like to make a point about financial market dominance. It is often framed as who dominates who, but what I see is that we listen to the markets and the markets listen to us. It is usually a two-way street, but when a big part of the banking system is about to fail, the markets expect the ECB to do something.

At some point, the moment of truth is going to come though and you are going against the markets. Then you have to be sure that the regulatory framework is sufficiently strong to withstand the impact. Markets should not collapse, if you go against them. So, as Lars already mentioned, the regulatory infrastructure that you have is really important. How strong it should be, is an empirical question though."

Hansen: “I do get concerned if monetary policy seems to be pampering the financial markets. Monetary policy gets stuck by saying ‘if financial markets react badly to what we do, that is going to be a big problem.’ But maybe some of those reactions are short term only. Also we should remember that the financial sector is just a part of the economy.”

Bartelsman: “Let us bringing the discussion back to Tinbergen. He was very interested in the correct identification of effects, but only for instruments that were policy relevant. Will we be able to understand in a fine way how these instruments will affect heterogeneous actors?”

Praet: “To address Tinbergen’s search for identification of the effects of instruments, you need data. There is much more data now than in the time of Tinbergen and this availability is only increasing.

Think about the transmission of monetary policy via the banking system. The ECB issues funding to banks for lending to private non-financial firms (the TLTRO-program). With current granular data we can trace the money: we know the balance sheets of individual banks, we know what liquidity they are taking from the central bank and we see their lending behaviour to individual firms, including the pricing. This gives us a very good idea about the effects of the program. In the past, you did not really know what was going to be transmitted to where in the economy if you lowered the rates.”

Hansen: “This type of work is very productive. I often mention though that data seldom speaks for itself and that we have to think about how to really structure the data whilst the data comes in as well. Both elements are needed to provide answers to the questions that we want.

I think how you inject financial resources into new businesses and the engines of growth is very important. Again, this is not what I see as just a monetary policy challenge. The standard banking channel is only one way to do that and there are also ways to stimulate financing beyond monetary policy. These new data sets can help us understand that as well.”

Bartelsman: “Besides being a researcher, Tinbergen also built institutions, which are of course necessary to create the adequate knowledge base Lars keeps

Nobel laureates meet policy makers

pointing at. I was wondering: the ECB received the mandate to regulate the systemic banks some years ago. Peter, what knowledge did the ECB have in place at that time?"

Praet: "At that time I was also head of Human Resources at the ECB and we basically took a thousand supervisors from the national supervisory authorities. We quickly built a good team. I would not say it was easy, but it was feasible.

The more difficult question is about managing conflicting interests of monetary policy and supervision in the central bank. Supervisors tend to 'gamble for resurrection' because when something goes wrong it may be the consequence of failures of supervision. In the last couple of years, we had several cases of tension between monetary policy and banking supervision.

We solve this by separation of the decision-making process. The supervisory boards for banks are autonomous from the rest of the central bank. But I wouldn't say the system as it is today at the ECB is stable in terms of governance. At the end of the day, the governing council of the ECB has to decide and approve the decisions of the supervisory board. This requires balancing two tasks."

Bartelsman: "This requires well trained and ethical staff. Lars, you are in the business of training people to work at central banks. Can you give students enough disinterested passion to do a good job, or are you sometimes worried that they will do whatever pleases their boss?"

Hansen: "The classes I give are not designed to give explicit policy advice. But in them uncertainty, and the consequences of it, are featured a lot and I would hope that that helps to shape their own thinking.

This please-the-boss-thing is a serious issue, but it depends on the boss. For some bosses the whole notion of uncertainty is a distraction. They want to be told a number and what to do. If it only were so simple... but there are also very intelligent bosses.

I hope students stay open and honest to themselves and what insights they can offer. I hope they realize that when they encounter a bad boss there are plenty of employment options at other policy institutions and research departments."

Praet: “The culture of central banking in general and in Europe in particular has changed very much. Traditionally, central banks had almost a military sort of organization, because they were involved in the payment and production of banknotes and these things require extremely strict discipline. But the last ten to fifteen years central banks have become much more open. We would not have done what we have done in terms of new instruments if the staff hadn’t been allowed to express their creativity. Beside DSGE models, the staff builds practical satellite models tailored to, for example, the financial sector. Also, we have expanded satellite models to deal with heterogeneous agents, for example differences across households in savings behaviour.”

Hansen: “I actually agree that central bank researchers have really been at or near the frontier. The research departments have been very productive and employ lots of high-quality people, especially in comparison to some other government entities. I am a bit frustrated that central banks embrace needlessly complex New Keynesian DSGE models with the pretence that they can actually deliver fully reliable answers. I am glad to hear from Peter about the staffs’ flexibility in using and augmenting these models wisely. I do worry where we are headed in the future in the U.S. Policy institutions have various vacant positions which would usually have been filled by qualified academics. I am not sure whether the current trend downward is going to continue and I am not sure what the long-term consequences of are, but I certainly hope that research support continues to be emphasized.”

Bartelsman: “I briefly want to touch on the problems with fiscal policy both in the EU and in the US and what that means going forward.”

Hansen: “I was one of those naive non-European economists who thought the idea of having a monetary union without a fiscal union was not the smartest thing to do. It was my initial thought that the Europeans were making a start with monetary union and that a fiscal union would naturally emerge within a couple of years.

We have not yet seen the fiscal part. Still, the monetary union has been remarkably resilient and survived much longer than I actually expected. This has been a surprise to me. I do think that the fiscal challenges are important,

but in Europe the situation seem to be very heterogeneous. How that is going to play out over the next decade or two is something quite interesting.

In the U.S., our national finances are not great as we are having spending increases and tax cuts at a time when we are booming and should be doing the opposite. State finances are heavily burdened by pension obligations.”

Bartelsman: “Let’s say we will get a very adverse shock in the next nine months. Is Europe better poised to deal with it? It has more fiscal space on average.”

Hansen: “I think I will take a pass on that one as I just do not have the expertise. Peter, I would be curious to hear the views of you on this.”

Praet: “It is indeed very odd to have a monetary union without having some integration of fiscal policy or at least strong coordination such that the policy stance in terms of stabilization would be appropriate. In 2010 and 2011 during the banking crisis this led to a kind of catch-22 situation. Some of the governments had been tightening fiscal policy very much because if they did not the markets would panic about the sustainability of finances. But because they tightened their finances, their economy deteriorated which necessitated further tightening of government finances. That is how the ECB became what we called ‘the only game in town’ while fiscal policy was quite restricted.

Given the sort of shocks that we have today, I am not sure monetary policy is the most appropriate tool when the main uncertainties are related to trade and protectionism and the big shocks are technological disruptions. Of course, monetary policy can remain accommodative, but that would not address the main issue.

Yes, we can hope that intelligent structural reforms supported by some fiscal policies will be decided. Especially when rates are extremely low, we have a lot of sympathy for that. And in textbooks that looks very convincing, as it does in analysis of the OECD. We know however that the reality of political economy is quite different.

We need more fiscal coordination within the Euro area and a better articulation between monetary and fiscal policies. For the years to come that is the main debate. You know that fiscal policy will have to play a bigger role in

stabilisation policy. But it has to be linked with structural reforms and that is usually what does not happen.

That being said, it makes sense to invest when you can borrow at minus forty basis points for a ten-year period and there are all these structural things that need to be done. But only if you can find good governance for the projects. Otherwise you might suddenly be looking at a minus ten percent return.”

Bartelsman: “Later in his career, Tinbergen shifted from positive economics, working on methodology and on tools that helped identify policy effects, to normative economics that furthered his views on society. Lars, if you were to go full normative on me, what would you be doing?”

Hansen: “There are a few different policies that I would personally want to have some attention focused on. I certainly would like to see the U.S. to be taking a much greater leadership in protecting the environment and the climate. And I would like to see U.S. be more forthcoming in terms of potential carbon taxation policy and be an example setter for the world there. Also, I worry about our long-term fiscal challenges. I worry about the problems we will be passing on to my son.

Let me also comment on government investment in infrastructure. I am curious whether the low rates are actually available for all these projects. How will these projects be funded in practice and will the government be able to execute these projects in a way that the returns outweigh the opportunity costs of the private resources utilized.

To encourage prudent policy design, you need to do a serious job considering the social costs and benefits. It is too often that people in the US say: ‘the private sector is not doing it’ and then magically expect governments to do it well. There are too many examples of governments doing it poorly. Nevertheless, I would be open to making some sort of support to infrastructure investments which are well-structured and well-conceived.”

Bartelsman: “Peter, now that you are retired from your official duties at the ECB, in what areas would you personally want to influence the policy debate.”

Praet: “I am a strong believer in multilateralism; it is essential for future wealth and I think it is in danger. The matter of trade protection is a very big concern. The recent tariff moves of the US worries me very much. Lars mentioned environmental questions and I think these are common problems for humanity. We have to work on that.

The other point, of course, is European integration. Seventy-five percent of Europeans are in favour of the Euro – that is quite a high number. But we cannot say that the union is positioned very well in terms with real economic divergence across the countries. So, we have to tackle these problems and have to finalize what we call the capital market union to get better sharing of private sector risk. I think that’s the top priority for the union.

But then comes the question about fiscal union, which may be a bit too much. But we have to address these issues nevertheless. The EU continues to have a lot on its plate.”



Sir Angus Deaton is Professor Emeritus of Economics and International Affairs at Princeton University and Presidential Professor of Economics at the University of Southern California. His main current research areas are poverty, inequality, health, wellbeing, economic development, and the use of evidence in policy making. He was the recipient of the 2015 Nobel Prize in Economic Sciences.



Wouter Koolmees is minister of Social Affairs and Employment in the Netherlands. He has a degree in Social and Institutional Economics from Utrecht University. From 1999 to 2003 he was a consultant/researcher specialising in the labour market and social policy at the Dutch Economic Institute (now Ecorys) in Rotterdam. Then he worked in various positions at the Ministry of Finance. In 2010 he became a member of Parliament, and in 2017 he was appointed minister of Social Affairs and Employment.

Moderator Esther-Mirjam Sent
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Optimism is a moral duty

*A conversation between
Sir Angus Deaton and Wouter Koolmees
in memory of Jan Tinbergen*

It is in the spirit of Jan Tinbergen that Sir Angus Deaton and Wouter Koolmees inspire one another. When Wouter Koolmees says that “optimism is a moral duty,” Sir Angus Deaton takes out his note book to write it down: “I hope to use that quote. I love it.” Upon which Koolmees explains that he is quoting Immanuel Kant, so that it is full circle, from academia to policy making.

Optimism, however, seems in short supply with Professor Deaton – an empirical economist working on poverty, health and economic development – as he paints a grim picture of the situation in the United States in his book *Deaths of despair and the future of capitalism*, co-authored with Anne Case.

Deaton: “We discovered this thing about these people dying, that the mortality rate of the white working class was going up, and we traced it to what we now call *deaths of despair*, which are deaths from drug overdose, alcoholic liver disease and suicide.

People use opioids because their lives are so miserable that taking drugs seems like not such a bad idea. This is caused partly by the dysfunction in the labour market for less educated people. Many people have dropped out of the labour force and some of that is because the demand for unskilled labour has been falling for years.

Also, there have been marriage failures of less-educated people. People cohabit, they have kids and they then re-partner. People used to have a picture of an unmarried mother with children and she would be black. Now the typical unmarried mother with children is white.

These people, forty per cent of the population, are increasingly detached from the labour market, increasingly detached from marriage, increasingly detached from church. There is a sense that a lot of less-educated people are adrift and that the whole norms of a working-class or of more middle-class life have come apart.”

The situation in the Netherlands is a lot better than this. Koolmees, an economist by training and the minister of Social Affairs and Employment in the Netherlands, states: “Here, the level of poverty is very low. Also, when we look at the last twenty years, income inequality and wealth inequality have remained very low. Which is a positive thing.”

Deaton agrees: “While deaths of despair are occurring in some European countries too, it is nowhere on the same scale as in the US. Partly because you have a very different health-care system, and you are not letting pharmaceutical companies sell opioids – which are essentially legalized heroin – to the masses like in America. This has cost tens of thousands of lives of people who would not have died if we had a system more similar to the European one.”

Koolmees: “The middle class is still hanging on in the Netherlands, and I think that is a good thing. Still, there is a segregation in the Netherlands between people who have fixed contracts and those with flexible contracts. The ones with fixed contracts more often tend to be well-educated, and they are safeguarded by the old labour laws: they have access to social security and pensions. Those with flexible contracts often go from one employer to the other, and they neither have this education nor this access to social security and pension schemes.

This segregation has consequences. People who are low-skilled tend to be on the lower end of the income and life-expectancy distribution. They no longer have the upward potential of the fifties, sixties and seventies. There is more division now in our society and that worries me. That worries me a lot.”

Deaton: “It worries me too, and I think it is worse in the United States. As a society, we have got to find some way to ensure that people who do not have a bachelor’s degree or are not really well-educated have something worthwhile to do. By that, I mean something that is seriously valorised, that people think is good and respectable and useful. Take the situation in the first twenty or thirty years after the Second World War, then we had a society in which also less-educated people were really valued. And if we do not see to that, it is going to form a real threat to capitalism and in the West to democracy as well.”

Sent: “Minister, is there any specific issue you would like to raise with Professor Deaton?”

Koolmees: “One particular issue in the Netherlands is the position of the self-employed. We have a lot of them, about 1.4 million. Some are able to take care of themselves. These are the entrepreneurs, the advisers, the IT-people with high hourly rates. However, many of the self-employed are struggling. They are at the lower end of the labour market, sometimes they have been forced into self-employment and often at low payments.

Now, my question for Professor Deaton is: how does one identify these different groups of self-employed? And how does one support those who are struggling? Do you happen to know examples of how other countries solve this issue?”

Deaton: “I do not know the answer to that. What you describe might be related to the tremendous amount of outsourcing that is going on. Not outsourcing abroad, but outsourcing by large corporations to labour-supplying corporations. So, for example in an Amazon *fulfilment centre* – that is what they call it, but it is in fact a warehouse – very few of the people working there actually work for Amazon. Most of them work for a company that supplies labour. Those contracts bring in huge amounts of turnover, yet these people often do not have any benefits like health insurance.

We do not know very much about this, for it is a relatively recent phenomenon. Yet we do know that one of the things that makes it so much worse in the United States is that we have this disastrous health-care system ...”

Koolmees: “Yeah.”

Deaton: “... which makes it incredibly expensive for firms to hire workers. There is an enormous temptation for firms to shed workers, so that they do not have to pay the unemployment benefits, pension benefits and health-care benefits. There can be quite a substantial difference between employing somebody directly or via an intermediary.

In a certain sense, it is the success of the unions and the success of labour over time which pressurizes employers to find ways to avoid paying for these benefits. They do so by shifting the less educated workers into these labour-supply companies.

Some of these occupations are very bad, and some of them are less so. A lot of the focus is on Uber drivers, but they at least have some autonomy. They can choose when to work for instance. But if you work in a call centre, in fast food or in the Amazon warehouse, it is like being on the assembly line in the old Ford plant. You have very little money and very little autonomy. Those can be very bad jobs.”

Koolmees: “I agree with your analysis. Some employers are constantly inventing new ways to get jobs as cheap as possible. There is payrolling, contracting, and there are the temporary work agencies, some of which exist to circumvent giving workers proper benefits. We see this as a problem and with legislation we try to prevent it.”

Sent: “Professor Deaton, you are conducting very meticulous empirical analyses with crucial policy implications. Jan Tinbergen felt it was important to establish a bridge between academic insights and policy proposals. Do you feel that you are able to influence policy?”

Deaton: “My standard answer to any question is: ‘it is complicated’ – which in this case is not a very good answer. But it actually is difficult, because policy making in America has always been less rational than in many of the European countries. I could never have the conversation I am having here with Mr. Koolmees with his counterpart in America.

It is not only Trump. If one can compare Washington, not to a swamp, but to a zoo, the animals in our zoo are much stranger and wilder than in many European capitals.

People listen to academics in America too, but they do so in a very indirect way. Now, academics are trying to write a book that will sell a great number of copies to intelligent laymen. If it does, it will be written about by the newspapers, it will be discussed and it will be talked about during elections. The term ‘deaths of despair’, for instance, has rather proliferated in the public vocabulary.

The days when Tinbergen wrote this wonderful stuff about optimizing policy were a time when the government listened to great academics in a far more direct way.”

Sent: “Would you agree, Minister?”

Koolmees: “I have always felt a link with academia. I am trained as an institutional economist, which is a combination of economics and sociology, and during the first years of my professional life I was a researcher at the Netherlands Economic Institute.

I find it very interesting to use academic insights for policy making. For instance, now in our ministry, we are working on an evidence-based policy as to the integration of immigrants within the labour markets. We do not know a lot about the effectiveness of this kind of policy, so we have started eight pilots, together with scientists, in which we monitor what works and what does not.

It is also important to get scientists into the ministry in order to help us find better policies. With this aim, we have a scientific coordinator in the ministry here, we have links with universities across the Netherlands, and once a year we invite PhD students to present their new findings to our policy makers.

Also, there are three independent scientific agencies who advise my cabinet on policy. To wit: CPB Netherlands Bureau for Economic Policy Analysis – which was founded by Jan Tinbergen – for the economic perspective, SCP Netherlands Institute for Social Research for the social and cultural dimension, and PBL Netherlands Environmental Assessment Agency for the environment. I am very happy with those.

The coalition system in the Netherlands – as opposed to the *winner takes all*-system – is also relevant. It means that we have to compromise on things – and so evidence, figures and statistics are helping us to arrive at a compromise among the various parties.”

Deaton: “In the United States and to some extent in Britain, the role of experts has been falling into disrepute. You can have all these experts in the ministry, links with academia, and all the rest of it. But the danger is that experts think they know best for people and will aggravate people. So, I am wondering how you keep that under control, Mr. Koolmees.

Maybe having the coalition government helps, maybe not having *‘first past the post’* helps, but you have got to internalize those voices as well as the experts’ voices. Otherwise, you are going to lose legitimacy. What are your ideas as to this?”

Koolmees: “I am familiar with the issue. We now have thirteen parties in parliament, while we came from a situation in which we had just three big parties: Christian Democrats, Labour and Liberals. And among the thirteen now, there are also the new, up-and-coming populist parties.

But, on the other hand, the ‘Poldermodel’ is part of our culture, which comprises a social dialogue among employers’ organisations, unions and government. And since we have coalition governments, we also need some external referees. That is a role academia can play, and it is a role the CPB does play.

So, then we ask the CPB: ‘We want to achieve this or that goal – what is the most efficient way to do so?’ And this is what makes for a more rational debate.”

Sent: “Professor Deaton, in talking about the interaction between academia and policy, I do wonder about the role of economists themselves. President Truman is famous for having said ‘please, give me a one-handed economist, for all my economists say on the one hand, and then but on the other.’”

Deaton: “It is hard for me to dissociate this from what is actually going on right now. Because, clearly, we are in a situation where economists are not being listened to much. Instead of picking economists to tell one what the evidence says, they are picking the evidence they want to hear and then search

for the economist who will say just that. So, you get policy-based evidence, instead of evidence-based policy.

It used to be different. People like Larry Summers, who is a great economist, were advising the Obama administration. I hope it will come back, as at the moment the only home for technical policy advice within the government is the Federal Reserve System. Yet in the Reagan administration there was also very little in the way of economists helping the government.”

Sent: “When it comes to the role of economists, Mr. Koolmees, it is interesting that you were trained as an institutional economist. Does institutional economics play a role in policy matters?”

Koolmees: “As minister of Social Affairs, my institutional economics background is very useful in interacting with unions and employer organisations. Before I became a politician, I was employed at the Ministry of Finance, which has a neoclassical way of thinking. And this thinking also helps me in my policy proposals.

When you look at the economic debate in the Netherlands over the last twenty years, I see the rise of institutional economics. The purely rational homo economicus is not very relevant for today’s policy debate. This is obvious in how the labour markets function, and the housing market or the health-care system.”

Sent: “I wonder what the implication of this is for applying the Tinbergen rule to policy goals and instruments.”

Deaton: “Well, the rule is more or less a matter of logic. You are not going to do very well if you do not have enough levers to pull, but over the years the role of the rule in policy making and academia has changed.

When I first came into economics in the late sixties, early seventies, we all assumed that the central bank was responsible for inflation, and that the finance minister, perhaps Parliament, was responsible for unemployment. Those were the two objectives we were concerned with most. And when we considered whether it should perhaps be the other way around – the central bank managing unemployment and the treasury inflation – we organised dis-

cussions about this with people in academia and in government, and we built large-scale models in the tradition of Tinbergen.

Now, however, this has been swept away to a large extent. Of course, you always need to keep in mind that you cannot reach two goals with one instrument, but it is a less technocratic world than when we used to have these discussions.”

Sent: “Minister, do you yourself experience a struggle in your own policy domain of not having sufficient instruments or having conflicting goals?”

Koolmees: “In general, our policy has become more complex. Though sometimes we try to reach multiple goals with one policy instrument, and then afterwards think ‘Tinbergen was probably right.’

We have a good social security system, for instance, but it has been made very complex. We have lots of different ‘toeslagen’ [income subsidies, eds.] which are very social and good for the people. But the way in which the system is organised sometimes gets people in debt. The problem is clearly that we want to achieve several goals with one instrument.”

Deaton: “In Tinbergen’s world you had a single policy maker, or perhaps several of them working together, and in that case you would focus on the number of instruments. But maybe it does not matter so much how many instruments you have, it is just who controls them.

In the US we have many, many policy objectives, yet fiscal policy is not going to solve them, especially given the polarization and paralysis in Congress. At least, that is not the way we think about it. In Europe, there are so many players – the Germans, the French, the British – and they have all got their fiscal stance. It is not so much the levers that have changed, but who controls them.”

Sent: “Would it be fair to say that we in the Netherlands are saving capitalism, whereas policy in the United States is killing capitalism? Is this the end of capitalism in the United States?”

Deaton: “I hope it is not the end.”

Sent: "Why?"

Deaton: "This is a very important point. You might imagine some crisis coming along, which then would mean the end of capitalism – and there are a lot of people thinking that way. They would like to see capitalism replaced by something else.

That is not my view though. We have to fix capitalism and make it work better for everybody. We should not attempt to do away with it and replace it by something like governments owning the means of production, which – as we know from a lot of experience – is not going to work."

Sent: "Do you see yourself as capitalism's saviour, Minister?"

Koolmees: "I agree with Professor Deaton's 'fixing capitalism' statement. We used to have a discussion as to the haves and the have nots, which is actually a discussion about the distribution of income or wealth. Now we more and more tend to have a debate about the cans and the cannots. That is a good discussion to have, because it is about education, about having opportunities.

And then you see that, in the Netherlands, people at the lower end of the labour market, who depend on flexible contracts, tend to be more negative about their situation, more insecure. Eighty percent of the people who are dependent on flexible contracts say they are not happy. From a societal point of view, that is a big issue.

We have to come up with a solution. The Dutch Poldermodel with its unions and employer organisations will have to set that right, because people want more social security and fixed contracts. That is why I proposed a law in order to decrease the differences between fixed and flexible contracts in the Netherlands.

And that is also why I am proposing a minimum tariff for the self-employed. On the lower end of the labour market, eight percent of the self-employed are living in poverty compared with two percent of the employees."

Sent: "We have touched upon a few themes in Tinbergen's work. We have touched upon the policy rule, policy norm to some extent – the inequality that

he felt was acceptable – and we have touched upon his insights on poverty and inequality. There is one other thing finally that I would like to put forward, and that is that Tinbergen felt that there would be a convergence between East and West, between North and South.”

Koolmees: “Globally, there indeed has been a huge poverty reduction in the last thirty to forty years. And looking at Europe, you do see a convergence between East and West.”

Sent: “In this conversation, we have frequently stressed the differences. However, Tinbergen felt that convergence would occur. Do you see Europe becoming subject to deaths of despair as well, or do you see convergence in the sense that in the United States academic economists and the insights they have to offer will find a more sympathetic ear?”

Deaton: “Well, I am an optimist.”

Koolmees: “Haha – you are an optimist?”

Deaton: “Perhaps my optimism is momentarily suspended, but my last book was called *The great escape*. One of my favourite facts is that there is no country in the world in which infant mortality now is higher than it was fifty years ago. No country; none of the worst countries. And there are some pretty terrible places out there.

Scientific knowledge is on the move all the time, and that is what enables all of this progress. It may still threaten and harm workers now, but that is how we got rich in the past. I actually believe that the human spirit really desires progress. And that we will find a way towards progress. But no one said progress would be steady-going. Some of the most horrible things that have happened in human history happened in the twentieth century Like the tens of millions of people who died during the Great Leap Forward or the two World Wars. Nowadays of course it is far more interesting what is going to happen in the next ten or fifteen years. Is what is happening now a foreshadowing like in the 1930s, or will we somehow get back on track? I do not know the answer to that question. There are a lot of really worrying things. And I do think a lot of

things we put our trust in, like education or meritocracy, are not working as well as they once did.

I do not think that our current situation in the West is going to block poverty reduction in the world. I think that what India and China have done, can also be done elsewhere. Improvement in poor people's lives depends on the spread of knowledge and of technologies, and there are lots of ways to achieve that. There are obvious threats, like China. It has great potential, but will politics interfere? I do not know. I do know that there are lots of things to worry about."


Sent: "What is your role in bringing about this progress?"

Deaton: "I am a great believer in data, in simply providing information. One of the very positive things in economics over the last twenty or thirty years has been the amount of data having been made publicly available. As a result, we know a lot more than we used to about how our economies are working, especially as to social matters.

These days we have data that were not available when Tinbergen was constructing his model. At that time, he gathered twenty to thirty observations annually, and he was trying to see a pattern in these. Currently, a big dataset is in excess of ten million observations. And that has really made a big difference. We know a lot more now than we did then. It will help elucidate some of the views that Tinbergen had when he was working. So, I am optimistic but I am no fool."

Koolmees: "Optimism is a moral duty."

Deaton: "Should you ever need a new career, I would love you to come to America and be a politician here."



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Round table on the interaction between policy and academia

Elisa de Weerd, Editorial assistant at ESB

What steps need to be taken to improve the interaction between academia and policy? During a round table discussion, we have asked both academics and policy makers to share their experiences and ideas.

About 75 years ago, Jan Tinbergen came up with a scientific basis for Dutch policy making when he served as the first director of the CPB Netherlands Bureau for Economic Policy Analysis. In the current economic debate, however, the validity of economic research seems to be increasingly questioned (Lukkezen and Ernst, 2019). Researchers feel that evidence-based policy recommendations remain on the shelf, and that solutions to complex economic problems are more and more based upon political interests and advocacy groups. At the same time, economic research cannot always be directly applied to economic policy. We have asked both academics and policy makers to share their views as to improving the interaction between academia and policy. The discussion was held under the Chatham House Rule. The opinions in this article may not reflect those of every individual attendee.

The participants kindly responded to the invitation from the KVS (Royal Dutch Economic Society) to participate in the discussion before attending the Prof. F. de Vries Lecture by Esther Duflo. The room in the *Paushuize*, one of Utrecht's oldest buildings, is full – and considering the applied nature of Esther Duflo's work it is not surprising that attendees at her lecture are enthusiastic to discuss their ideas on the interaction between academics and policy makers within the Dutch context.

Experiences

Academia and policy can interact with one another in different ways. Government institutions, like the planning bureaus, analyse policies using academic methods. Furthermore, academics can also distribute their research results themselves by publishing their research in the media, and by directly contacting relevant policy makers.

The majority of the attendees at the round table discussion are academics, and most of them have little successful experience of policy making. The

attendees who have tried to translate their research for policy purposes are not all that enthusiastic about the current interaction. “My experience is that scientific knowledge is rarely used in policy making.” Indeed, policy makers seem to have little interest in academic research.

The problem is not necessarily that policy makers seem to lack a desire for a scientific basis. The willingness to base economic policy upon research is definitely there. “Whenever the ministry is looking for a solution, they are very eager to start new research.” This is favoured above searching for existing academic research.

Academic economists feel that their research’s valorisation could be a lot higher. Since some researchers have difficulty in directly contacting policy makers, they attempt to increase the impact of their research in other ways. They try publishing in newspapers, in journals, or sharing short summaries of their research on platforms like Twitter. One attendee joined a political party’s research institute out of frustration that this person’s academic work had not landed in the policy world.

One of the participants calls policy makers’ lack of taking up economic research “the market failure in the exchange of ideas between academia and policy”. There are too few individual efforts to improve this, and there is not one university that is able to provide a solution to this single-handedly.

The issues

Then what does prevent academic insights from being used in policy making? From the academic side, scholars may not always conduct research with the greatest policy impact. Since researchers, especially starting ones, still have to make their mark, their incentives are rather to conduct novel research instead of just applying relevant research to different contexts. The result is that only a limited number of studies is conducted on a single policy topic. Furthermore, researchers are becoming more specialised. They may know a lot about a specific intervention’s labour market outcomes, but they may not be aware of the consequences of other interventions that could tackle the same problem. Knowledge is thus piecemeal, while what policy makers want are full solutions.

Secondly, policy makers are making insufficient use of the currently existing knowledge base. This may be because they are not sufficiently aware of the research available, but it may also be a case of only using the literature oppor-

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tunely. If earlier research findings are not in support of the new policy change or of political opinion, it could be easier to conduct new research in order to see whether the specific Dutch context provides other results, even though the chances of finding these may be slight.

Historical perspective

The attendees feel that there is a lot to be improved in the interaction between policy and academia, but this does not mean no improvements have taken place since Tinbergen's time. Is the situation better or worse than in Jan Tinbergen's time? The opinions are mixed. On the one hand, back in Tinbergen's time, policy makers and academics were more closely connected. Nowadays, the public is more sceptical of economic research, and policy makers seem inclined to give in to the demands of the public. Because of economic research's changed status, the situation can thus be perceived as worse than in the time of Tinbergen.



On the other hand, current policy changes need to be reviewed by law within a few years. Changes in policy are thus more evidence-based. Cherry-picking may, however, still occur. A participant who has been involved in economic research from both a policy and a research perspective, relates that the majority of policy makers regards research as potentially bad news. “Only a minority recognizes the opportunities that policy research may bring.”

International comparison

The participants agree that the situation in the Netherlands is relatively positive in comparison with other countries. “I have spent years abroad, and I can only be very enthusiastic about the wonderful infrastructure we have in the Netherlands.” The Netherlands has various institutes and advisory bodies, such as the planning bureaus, that help translate economic research into policy recommendations, and scientists are generally given a stage in order to inform members of parliament about their research.

Is there anything we can learn from other countries? In France, many leaders in both government and academia come from a small number of prestigious schools. This leads to strong network effects, and makes it easier to connect these two worlds. Not everyone sees this as positive though: “Good networks create an efficient way to circulate certain ideas.” If all people within this network come from the same kind of background, then the diversity of ideas actually circulate in both academia and policy may not be reflected. Something we may learn from the United States is that there it is easier to track the actual uptake of certain policy recommendations.

Solutions

Several parties can play a part in improving the interaction between academic research and policy. What could academics and policy makers do better, and what would need to change in the research structure in the Netherlands?

Academics

The participants in the discussion highlight the importance of research networks. Perhaps an elite network, similar to the one found in France, may not be ideal for this, but networks concentrated around specific issues in society can also be founded by academics themselves. In such networks, researchers

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from several disciplines can come together with policy makers so that one may approach issues from various perspectives. To create this may cost time, but it could result in a network that would make developments in the field more visible.

In addition to this, academics can learn to communicate their research better to both the public and policy makers. National institutions or individual universities can play a part in this. “In general, policy makers are well-informed on the topics discussed in the news or social media.” Platforms like Twitter force researchers to summarise their research in a concise and clear way. This may further improve the comprehension of economic research, and create a better uptake of economic ideas.

Policy makers

Policy makers can also play an active part in incorporating academic research in policy. It is already obligatory to evaluate policy changes within a few years after transition, but a more ex-ante evaluation can increase the quality of these evaluations. This mandated basis creates the need to evaluate the existing research in order to decide on the policy change’s anticipated impact. The proper questions need to be formulated from the start. “Look for impact, not just output.”

A subset of the participants was somewhat surprised that experts were only to a lesser degree included when it came to complex issues such as the climate plan. To improve the political support for new policies, policy makers and politicians sometimes use ‘the polder model’, a consensus- and decision-making model for designing new policies. From a long-term perspective, it would be better to base policies more on research. “Policy makers and politicians lack the guts to include academics in the policy process, because they are afraid that those solutions may not be accepted by parliament or the public.”

Research structure

What might be changed in the incentives for academic and policy research? “The holy grail of research is research that is publishable, feasible, and in line with the authorising institution’s objective.” Research is not always directly policy relevant, and is thus not always in line with the policy makers’ objectives. One solution to provide incentives for researchers to do policy-relevant





research is to design publicly-funded temporary positions for researchers in policy (research) units, while preserving their tenure-track incentives. One attendee reflects: “When I was doing policy work, it just filled me with ideas. Every day ideas for new studies popped up.” Thus, these positions not only bring academic ideas to policy makers more directly, they may also influence the societal impact of academic research that is being conducted by influencing the research agenda.

Conclusions

Jan Tinbergen never really worked exclusively in policy, nor did he work solely as an academic researcher. His influence on both policy and academia allowed him to connect these two worlds. Connecting these worlds again by expanding the ability of researchers and policy makers to interact with one another may help to strengthen once again economic policy’s scientific basis.

The majority of the discussants feel that giving researchers the opportunity to bring findings from their research field into the policy field will improve interaction most. Giving researchers the opportunity to extend or even start their tenure track in this way, can be expected to increase enthusiasm among researchers. The other popular solutions focus on improving and stimulating scientific communication, and on performing the proper policy evaluations mandated by law.

Impact on policy does not only depend on the researcher’s or policy maker’s efforts, it also depends on the timing. One of the discussants mentions that, in the early 1990s, Card and Krueger researched the employment consequences of a rise in the minimum wage. It was read by many in the economics discipline, but was not taken up by policy makers in the Netherlands until the Labour Party used it in the elections. “Many things in policy making only change if something in society changes.”

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Eric Bartelsman is professor of economics at the Vrije Universiteit in Amsterdam and general director of the Tinbergen Institute. During his education at MIT and Columbia University he enjoyed taking classes with more than a handful of future Nobel laureates. He started his career in policy-research positions at the Federal Reserve Board in Washington DC, and subsequently in the Netherlands at CPB and the Ministry of Economic Affairs. Since his return to academia, he has frequently been a research visitor at policy institutions. His interests are in the area of productivity growth, both from a micro and macro vantage point, and have led to well-cited publications in top journals.



Esther-Mirjam Sent is professor of economic theory and policy at Radboud University. She is also a member of the Dutch senate. As such, she is devoted to building bridges between academia and policy. At the same time, she experiences challenges in these endeavours. She obtained her PhD in economics at Stanford University for a thesis in which the future Nobel laureate Thomas Sargent featured prominently, under the supervision of Nobel laureate Kenneth Arrow. Also, she obtained prizes for the best dissertation and the best book, received several teaching awards, and has been the recipient of three media awards.

Reflections of the moderators

*A Conversation between
Eric Bartelsman and Esther-Mirjam Sent
in memory of Jan Tinbergen*

Both Eric Bartelsman and Esther-Mirjam Sent have experience traveling between academia and policy making, following the spirit of Jan Tinbergen. Both of them have spent a significant part of their education and career in the United States. They are grateful for the opportunity they were given by the KVS to arrange, conduct and publish the interviews in this volume. In the process, they mostly saw their conversation partners on screen. Now they drop the looking glass and reflect together upon the rich content of the interviews about the state of economics and economic policy, both here and there.

Sent: “Yes, it has been interesting doing this project via skype. I hope we can put it all together during this conversation. Many, many interesting topics have been discussed with the laureates and policy makers, as well as during the round table.”

Bartelsman: “It has been like taking a sip of water from a fire hose. Who do you think were the more impressive, the policy makers or the academics?”

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Sent: “That is a tough one. I was impressed by the desire on both parts to build bridges. In my conversation between Koolmees and Deaton, they were asking one another questions. And Deaton closed with the request to Koolmees to become a policy maker in the United States.”

Bartelsman: “The regard that the conversation partners had for the problems and challenges facing the other was evident. The empathy shown on both sides provides a great foundation for a bridge. Also, the policy counter parts seemed very well versed, at least on the surface, in some of the details of academic economics.”

Sent: “As far as the academics were concerned, though, policy makers were not always listening to the right academics. For Stiglitz, the Chicago School had been selling a right-wing political agenda under the guise of economics. But then again, it is always easy to criticize the other economists for being wrong. When confronted with the thin line between academia and advocacy in his own work, Stiglitz gave a big smile that is not included in the text.”

Bartelsman: “Luckily, we have two Chicago economists participating. Heckman started in the field of economics out of a desire to do something about segregation and inequality. He has gone far into the rabbit hole of econometrics, but has emerged with a very strong body of evidence, which is now slowly steering policy. In his evidence-based narrative, inequality cannot be corrected with tax policy alone. Early interventions into family and education are required to give children the full set of tools needed to grow up into participating adults. Hansen is predisposed towards light policy intervention, yet works hard to build a framework to improve the quality of policy making when faced with uncertainty.”

Motivated by inequality

Sent: “Indeed, I found it fascinating to learn more about the reasons the Nobel laureates started studying economics. They were all concerned about matters such as inequality and poverty, and felt they could make a difference with their contributions. In that sense not much has changed since the time Tinbergen started, for he was inspired by similar matters.”

Bartelsman: “I hope our students are similarly motivated.”

Sent: “We had young participants at our round table who certainly did not desire an ivory-tower position. Moreover, they suggested ways in which the ties between academia and policy could be strengthened. And Deaton also has some recommendations for these young economists: write a popular book, publish op-ed pieces and never give up.”

Role of data

Sent: “The role of data was stressed multiple times during the conversations. The OECD thinks that populism can be partly understood by considering the fact that we were not looking at the right data. That is why it is working closely with Stiglitz to gather new data. And Deaton made surprising discoveries when investigating the rise of deaths of white males in the United States, which he calls ‘deaths of despair’.

Here, again, we see the spirit of Tinbergen in the importance of drawing lessons from data.”

Bartelsman: “The role of data came up in my conversations as well. At the time that Pissarides was working on labour flows for his search and matching models, he had to piece together bits and bobs of data. Now, thirty years later, statistical agencies are publishing full sets of worker-flow accounts.

The big data ‘hype’ as Heckman calls it, may be a worry. He cites Tinbergen in the first issue of *Econometrica*, warning about data without theory. Also, he gives a stark warning about the trap of thinking that the number of observations can help to determine causality. Also, Hansen warns Praet, former chief economist of the ECB, of thinking that it is straightforward to properly use the granular transactions data that now are available.”

Tinbergen Rule

Sent: “Of course Tinbergen is well-known for the so-called ‘Tinbergen rule’. This is the idea that, if you have a big econometric model, you need the same number of instruments as goals. At the time, it was attacked by Keynes. He felt that Tinbergen did not have an eye for econometric difficulties due to uncertainty.

During my conversations, the general consensus seemed to be that the rule is still relevant for analytical purposes. However, the rising complexity and the insights on non-stationarity call the application into question. Did you touch upon such matters in your conversations?”

Bartelsman: “Absolutely. For the econometricians, it is just a point about the full rank of a system. But, complexity and a large variety of policy goals make it almost moot. At CPB, many partial models are used to analyse specific policy areas in depth.”

Institutions and politics

Bartelsman: “At a more macro level, the realities of political economy make the discussion about instruments and targets moot. While the ECB is independent, and has a host of conventional and not so conventional instruments to affect financial markets and investment spending, the fiscal policy authorities are hamstrung by EU rules and their own debt position. Going forward, this sets a gloomy picture for the future, when next downturn comes. What did you learn about the future during your conversations? Is there any optimism?”

Sent: “Optimism is a ‘moral duty’, as Deaton and I learned from Koolmees. He, in turn, had learnt this from Immanuel Kant. And I believe there is so much to be optimistic about when it comes to the situation of the Netherlands. Gurría gave a disturbing overview of the situation in a large part of the world. Deaton was distressed about the economic, political and social situation in the United States. This is not to say that we can be complacent, but the conversations did teach me to count my blessings. Did such comparisons show up in your interviews?”

Bartelsman: “Well, at present the situation of using academic theory and evidence for policy is very different in the US. The Chicago economists are just as horrified as Stiglitz is. In the Netherlands, there certainly is a broad-based desire to use policy for the better, and to make sure that evidence is used. Policy errors can ruin the lives of millions of people, but doing nothing can be even worse. Pissarides and Wiebes were very much in agreement

that harnessing the new technologies to better the lives of everyone in the next generation could be done through a concerted effort of the government. They may disagree a bit about how to make sure that growth is inclusive. Pissarides for instance seemed quite intrigued by the fact that in the Netherlands redistribution goes rather smoothly.”

Sent: “I think our policy making landscape is important here. Indeed, we have to be grateful to Tinbergen for his role in the design, as the first director of the CPB Netherlands Bureau for Economic Policy Analysis. The bureau of statistics plays an important role in gathering the data, the planning agencies in analysing these and the advisory committees in formulating policy recommendations. This helps to discipline politicians, which is much needed. And I say this as a politician myself. Did you touch on differences in these institutional settings? Perhaps in the interview with Van Geest?”

Bartelsman: “Van Geest proved herself a worthy successor of Tinbergen, in the eyes of Heckman. I think there is still tension in the process of feeding policy makers with ideas. Hansen clearly states that managers in policy research environments need to create a system that best makes use of the knowledge and creativity of the highly educated staff. Otherwise, you get ‘policy-based evidence, rather than evidence-based policy’, as Deaton laments. Praet promises that much has changed in this regard in the central banking world in the past decades. Still, Hansen makes it clear that it is the researcher’s responsibility to leave if he is requested to present any findings that back the boss’s ideology, rather than providing evidence for answering the question to satisfaction.”

More interaction

Sent: “That is good. Additional challenges also became clear at the round table we organised. The incentives in academia do not necessarily encourage contributing to policy making. The assessments of policy proposals are not always very rigorous. Ministries might focus more on incorporating existing insights. Indeed, I find that many policy proposals still rely on outdated assumptions about incentivizing people. There should be more room for experimenting in policy making, in line with the insights of the most recent

Nobel laureates Duflo, Banerjee and Kremer. Should I embark upon a next set of interviews, they would be high on my list. But back to the present conversations, if you were to lift out one recommendation from the round table, which would it be?”

Bartelsman: “Fund one- or two-year visiting positions at policy research institutions or even at strategy departments within ministries. These positions would have to fit the life-cycle of academics and further their careers. One could think of a similar set-up to the three ‘individual investigator’ grants from the Netherlands science foundation NWO (Veni, Vidi, Vici), with a similar degree of prestige. Spending a year or two in a high-pressure policy environment will generate enough research ideas for many years for an academic. Furthermore, having the best scholars working alongside policy staff would generate a culture in which academic evidence always gets included in the policy proposals and laws.”

Sent: “I am not sure I am as optimistic as you are about the willingness of politicians on this matter, even if optimism is a moral duty. As Deaton says, there is a lot of policy-based-evidence, instead of evidence-based-policy. At the same time, being an economist is challenging, since it requires navigating carefully between high uncertainty and high stakes. Tinbergen helped us to face this challenge and these conversations have taught me that his insights are still relevant today.”

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