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[Introduction to] Escape from Democracy: the Role of Experts and the Public in Economic Policy

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Escape from Democracy

The Role of Experts and the Public in Economic Policy

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Introduction

One who is to act for another with special competence, superior to that of his principal, and with fidelity, must be picked for competence and trustworthiness by some intuitive process, and must then be trusted. Sanctions of the sorts found in every society no doubt help in securing trustworthiness. About all these matters we have little knowledge, and the one thing that can be said with assurance is that (peace to the shade of Jeremy Bentham!) no machinery of sanctions can conceivably function without very large aid from moral forces.

Frank Knight (1947, pp. 29–30)

1.1 Introduction

The twenty-first century is surely the century of consultants, advisors, and experts. We listen with great interest to pundits who make predictions about an election, the World Series, or the Super Bowl. When we rebalance our portfolio, buy a house or a car, or adopt a healthier lifestyle, we visit websites where experts advise us about how best to proceed. Consultants are hired at every turn. In higher education they offer advice on bringing in a class at the appropriate discount rate; developing a strategic plan that will please multiple constituencies; or planning for a capital campaign. Academia is not unique in this regard; throughout the for-profit and the nonprofit world we seek and rely on the advice of experts – those outside the organization who will independently verify our thinking or point us in a new direction. Sometimes, this is a simple process of validation: we on the inside have a hunch that, for instance, higher rates of discount will yield greater retention rates at a college; the consultants we hire collect the data and perform the analysis that yields the advice we were looking for in the first place.

And this specialization and division of knowledge are good.[1] We want doctors and dentists to be experts and we rely on the engineering expertise of those who design our cars and the rides at Busch Gardens. No one who has visited a dentist in the last few years would wish to return to the dental practices of even ten years ago. If we decide to put a new policy in place – for instance to increase a discount rate for superior students at a college – we need reliable estimates of the costs and benefits associated with this change.

It is straightforward to observe and appreciate the benefits associated with access to expertise. There is, first, the simple fact that our lives have been greatly improved as a consequence of experts who made living easier by building bridges, discovering new medical techniques, and producing washing machines and countless other devices. In part for this reason, we typically defer to the experts. We put them on TV, YouTube, blogs, and the radio. Experts testify in court cases and before Congressional and Senate hearings. Political leaders and judges defer to them. Doctors – themselves experts – read evidence of the efficacy of a treatment and they rely on the expert scientists who conducted the trials. Experts rate securities, and firms and individuals base investment decisions on these expert-backed ratings. Experts tell us at what rate China and India are growing, what the balance sheet at the Federal Reserve looks like, and whether to expect high winds with the storm that promises to come through our region soon.

But another aspect of expertise has now burst into public attention, the failure to replicate a large number of results reported in scientific journals.[2] Marcus Munafo, the coauthor of a 2015 *Science* study that could replicate fewer than half of the results reported in a hundred articles in leading psychological journals,[3] explained the problem in terms of motivation and he pointed to the incentives facing the researcher:

[1] As Nathan Rosenberg, L. E. Birdzell, Jr., Deirdre McCloskey, and many others have shown, living standards in the West have increased dramatically in a matter of a few hundred years. Although the increase in human thriving has not been uniform and there are distributional issues to consider, much of the overall increase in well-being is attributable to engineering and other scientific discoveries (Rosenberg and Birdzell 1986; McCloskey 2010). To this, McCloskey adds the language of commerce. We will return to this in Chapter 2.

[2] An instance that has received a good deal of attention recently is the high school student's disreplication of a claim published in the *Oxford Journal of Social History* (Jensen 2002) that signs saying "No Irish Need Apply" did not exist, despite the widespread belief to the contrary. Rebecca Fried demonstrated (Fried 2015) that in fact "No Irish Need Apply" was a commonplace in the newspaper advertisements of the period.

[3] http://science.sciencemag.org/content/349/6251/aac4716. The authors cite the work of John P. A. Ioannidis whose model of the search for statistical significance predicted the problem

If I want to get promoted or get a grant, I need to be writing lots of papers. But writing lots of papers and doing lots of small experiments isn't the way to get one really robust right answer. What it takes to be a successful academic is not necessarily that well aligned with what it takes to be a good scientist.[4]

Unfortunately, the consequences of such motivated inquiry have occasionally been severe. Perhaps the best-known example followed a 1998 article published in *The Lancet* that asserted that childhood vaccines against measles and other diseases led to higher rates of autism. We now know that the author concealed his financial interests and the biased estimation procedures that strongly influenced his results. Obviously the editors, who had no such interests, were not aware of the concealment. Had the private goals of the author and the statistical procedures been obvious to the editors, or even suspected, there is no reason to believe the article would have been published. Experts – and here we simply defer to authority – claim that this widely diffused result has led to a disastrous fall in the vaccination rates.[5]

In what follows, we focus on experts in economics because it is easier for us to read the technical literature in economics than in other fields. Thus, our attention is confined to those who have a claim to scientific authority in economics and who use their expertise to influence policy, broadly construed. Such experts have attained great stature over the last century, and some notoriety recently.[6] The influence of the Chicago School of Economics in creating a neoliberal world is controversial in large part because their

(Ioannidis 2005). http://journals.plos.org/plosmedicine/article?id=10.1371/journal.pmed.0020124

[4] https://www.theguardian.com/science/2015/aug/27/study-delivers-bleak-verdict-on-validity-of-psychology-experiment-results

[5] A Wikipedia article "Alexander Wakefield" attempts to keep up with the studies evaluating the impact. http://en.wikipedia.org/wiki/Andrew_Wakefield.The retraction is in http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(97)11096-0/abstract. This belated retraction was important enough to make the major news outlets, for example the *Wall Street Journal*, February 3, 2010. "The Lancet's Vaccine Retraction: A Medical Journal's Role in the Autism Scare" and *NPR*, "Lancet Renounces Study Linking Autism and Vaccines," http://www.npr.org/sections/health-shots/2010/02/lancet_wakefield_autism_mmr_au.html.The study's impact is asserted widely: Jeanne Whalen and Betsy Mckay, "Fifteen Years after Autism Panic, a Plague of Measles Erupts Legions Spurned a Long-Proven Vaccine, Putting a Generation at Risk" *Wall Street Journal* June 19, 2013. http://www.wsj.com/articles/SB10001424127887323300004578555453881252798.

[6] The motion picture, *The Inside Job* documents a good deal of embarrassing economic advice in the period before the 2007 financial crisis. Jonathan Gruber's statements about the private benefits of nontransparency demonstrated the power of YouTube. Gruber's apology for casual usage of the principle of rational ignorance was that he was not an expert on politics. http://radio.foxnews.com/2014/12/11/jonathan-gruber-to-congress-im-not-an-expert-on-politics/

claims of expertise seem to have overruled democratic institutions.[7] In that context, Chicago School experts in economics are viewed by some as akin to physicians who prescribed the bitter medicine of "shock therapy" with the admonition, "take this, we know what's good for you."

Economists were concerned with questions such as the motivations of economic experts and the replicability of their results long before the "shock treatment" characterization of economic advice.[8] These misgivings, largely out of the public eye, have gradually reformed submission policies for academic journals in economics. Publication of applied statistical articles is now often contingent upon submission of the data as well as the computer commands to implement the statistical procedures. This is a remarkable change from the era in which data sharing was voluntary, motivated only by scientific duty, as an editorial in the *Journal of Political Economy* in 1975 informed its readers (Stigler 1975).

In line with such concerns, we hold that all inquiry is motivated. This follows from our presumption that all experts have at least some private (as opposed to purely public) motivations. As is well known, throughout his career James Buchanan made the simple but important claim that policy

[7] Juan Valdes examines the role of economists in Pinochet's Chile (Valdes 2008). Andrew Farrant and Edward McPhail and Leonidas Montes discuss new evidence on Milton Friedman's role in Chile (Farrant and McPhail 2013; Montes 2015). Valdes focuses on the University of Chicago's economics department and offers the view that their advice was inspired by the teaching of Frank Knight: "The community of economists risen to a Platonic category as 'the scientific community' was also seen in Knight's writings as the appropriate model for the 'free society'. The Chicago School, then, developed a vision of itself as the community of true economists, 'having the gift of faith, steadfast witnesses to the social glory and redemptive power of the market system'. More than economists in the restricted sense, they became social or moral philosophers; they tended to form – to use a Weberian concept – 'a rational sect'" (Valdes [1995] 2008, p. 80). A variation on this is found in Klein (2007, pp. 60–61) who views Knight's 1933 contribution as teaching his students to treat economic theory as above discussion. Valdes misses Knight's discussion of the collective-action problem among economists in a democracy, an issue A. C. Pigou addressed the following year. We discuss that in Chapters 2 and 9.

[8] Thomas Mayer used the replication criterion to ask whether economics is a science: "Neither originality, logical rigor, or any other criterion is as ranked as 'essential' by so many natural scientists as was replicability" (Mayer 1980, p. 170). Such concerns were the background for the replication project of the *Journal of Money, Credit and Banking* (Dewald, Thursby, and Anderson 1986; Feigenbaum and Levy 1993). In Chapter 4 we return to Mayer's attempt to replicate the body of empirical work linking current consumption to anticipated income (Mayer 1972). Chapter 11 addresses the question of motivated nontransparency. The history of concerns as well as the state of econometric replication as of 2015 is described by Duvendack, Palmer-Jones, and Reed (2015). There is now a replication network to help establish connections among researchers and to help the interested keep up-to-date. http://replicationnetwork.com/

makers are neither more nor less public spirited than the public.[9] We have used the phrase "analytical egalitarianism" to describe the presumption that people are all approximately the same messy combination of interests. In our view, it is now time to apply this homogeneity claim not only to policy makers but also to the experts who influence policy.[10] This book extends analytical egalitarianism to economic experts who influence policy, and this explains our cautionary approach to expertise: If one suspects the expert has a point of view not fully in line with that of society writ large, then one might be well advised to take precautions against the uncritical adoption of the expert's advice.

It is important to emphasize at the outset that we do *not* claim that experts in economics are untrustworthy or greedy, at least no more so than the rest of us. Instead, our position is that they are humans and like the rest of us they are subject to motivations to do good for all and to do good for themselves. Sometimes, by contrast (and sometimes to our peril, we suggest), people presume that experts pursue *only* the truth or that bias is costly for them because their only interest is the pursuit of truth. But when experts' models have alternative uses, when they are instruments for policy or to please those with whom they are connected, the motivations become more complicated. Our main concern in the book is how to ensure that the public obtains the best insights of experts in economics while avoiding the pitfalls associated with uncritical deference.

[9] See Buchanan's 2003 essay, "Public Choice Politics without Romance."

[10] This is consistent with Erik Angner: "Economists-as-experts are overconfident, I would argue, not because they are different from everyone else, but because they are just like everyone else" (Angner 2006, p. 7). The insistence that economists are subject to the same biases and limitations as everyone else is stressed by W. Kip Viscusi and Ted Gayer (Viscusi and Gayer 2015). We thank William Shughart for the reference.