New-breed economists say they can fix everything from social ills and illiteracy to bureaucratic bungling.

Story: Deirdre Macken

Economists like to discover what works and what doesn’t. They like to find the stories hidden in statistics. But it’s only recently that they’ve had the statistics to investigate what works and make a narrative out of it.

What makes crime rates fall? Why have been recent surges in oral sex among teens? Do small class sizes really improve outcomes? What’s the best way for students in the developing world – black or white, rich or poor? These investigations might be familiar to those who frequent books, articles, and websites about

Freakonomics, The Undercover Economist, and Profit and Loss, but their radical ideas have introduced the economics take on the world to a wide audience.

But the real test will come when such economists move from publishing to frontline policy. The popularity of the economist’s approach to life was obvious during a recent visit to Australia by Tim Harford, the “undercover economist.” At the end of one Sydney town hall he was asked by audience members if economics can be used to solve the world’s obesity problem. Why, he was told, isn’t it possible to reduce water shortages? It can be used to tackle the Aboriginal crisis, and why couldn’t Australia run along these lines?

These are big problems to place on the shoulders of a British economics journalist. Indeed, they are the problems to improve on the discipline of economics – or any other discipline for that matter.

But Tim Harford seems to think that much of the public has this in mind, and as Harford’s responses show, how the new economics has its own power.

“Economics is becoming the lingua franca of policy discussion,” says Justin Wolfers, assistant professor of economics and public policy at the University of Pennsylvania. “More and more, the language used to evaluate social programs is reaching the language of economics. Maybe I’ve been in economics too long, but I’m not sure whether there’s anything else except costs and benefits. The New Yorker’s 35-year-old is typical of the new economists. Viewed by the ‘brick and mortar’ economists as someone who fellow economists about whether (or how) research-based incentives are better for achieving their fitness goals. Like many of the new economists, Wolfers feels free to stick his neck out on such issues as crime, divorce, dating, terrorism and additives. The one thing economists agree on is that the next step is, logically, their application to policymaking.

In Australia, Andrew Leigh of the Australian National University has already ventured ideas on his list for the 2020

Upsetting people with surprising results is the forte of the new economist.

As Gilding’s covenants indicate, there is still a lot of tension between economics and sociology, but he is willing to grant that economics has been savvier in capturing the public imagination.

“Economics, like evolutionary psychology, has been using everyday language to reach out to a mass market and sell the discipline. I’d have to admit that it is a problem for sociology that they haven’t been successful in reaching a wider audience. Everyone needs to be doing that, despite incentives for reverse snobbery,” he says.

Regardless of these misgivings, Gilding hopes that, as economists and sociologists meet, the meeting results in more of a conversation than a battle.

“The question we all want to answer is, what drives human beings? Our disciplines are approaching each other to the point that neutrality is losing the moment,” says Leigh. “This is a healthy development of getting together and for other social scientists. If they care about getting answers, they should be happy when more smart heads bring their attention to areas they’re concerned about.”

Says Harford, “I wouldn’t discourage other social scientists, but people believe economists are getting out and discovering the world, and we are. We’re doing well and we deserve to be. But 30 years ago it was evolutionary biologists that were doing well, before that it was astrophysicists and before that the chaos theory. At the moment, it’s the economists who have something interesting to say.”

The next step, he says, “is to become irrelevent.” If they don’t approximate the new tools of inquiry. “The idea that economies can say something interesting about how the family works isn’t necessarily taken very seriously here. When I was studying in Australia, I was told Gary Becker was a right-wing ideologue.”

“Economists know very few sacred cows and, as we walk into new fields, we’re coming up with surprising results and upsetting a lot of people’s beliefs. Enough, especially in those disciplines that have been informed by experimental evidence. The best scholars embrace the new field. This is not the case with some who are more hesitant to make their way to the table. For example, one of the most interesting intersections at the moment is the link between law and economics. But it shouldn’t be a debate about quantitative versus qualitative; both can be used on the same problem, both are valuable. Upsetting people with surprising results is the forte of the new economist and this will become even more apparent when they begin to use their tools to challenge government programs and, economically, shape the future.

One recent example of how behavioral economics is beginning to influence policy is the reconsideration that the Bush government’s proposed tax cuts be channeled into superannuation on an opt-out basis.

The idea that a government directs a paycheck as a tax to a purpose that is good for both the individual and the economy (such as superannuation) relies on one’s individual findings that people are so aversive to bearing some cost, that they in their own interest: they’ll spend a cut on Cripples instead of taking it to their super. It also relies on people’s inherent laziness.

A similar system is being proposed for organ donation,
where everyone will be treated as a potential organ donor unless they go to the trouble of opting out of it.

One of the stars of behavioural economics, Richard Thaler, tackles this subject in his forthcoming book, *Nudge: Improving Decisions About Health, Wealth and Happiness*. The book explores the psychology behind schemes like the opt-out ones and suggests how such an understanding can be used to craft government policy.

To some critics, this book is the watershed one. It will push "behavioural economics out of the realm of experiment and into the realm of social policy," said an American reviewer.

While American economists and many of their institutions are keen to be the anthropologists of data digging, Australian policy works are more circumspect about the role of economics in government.

Many still have memories of how economic rationalism dominated policymaking in the 1980s and 1990s and they fear any economic input on areas such as the family, education, health, the law and, of course, the environment.

Gilding, for one, is on guard. "Economists have, no doubt, had a disproportionate influence in government policy, especially in traditional economic areas, and as they make claims into other areas of family, Aboriginal affairs, the environment, these claims will be deeply resisted." "Numbers have credibility. The method itself has its own authority, and that’s appealing to a lot of people, especially those who don’t understand the principle of rubbish-in, rubbish-out."

However, as those questions at the conclusion of Tim Harford’s recent talk indicate, people do have a lot of faith in numbers and they are keen to see how numbers work in broader fields, especially areas where policies have failed.

And, as Harford replied, economists will go anywhere to test a theory. "There are very few parts of life where economics can’t tell you something, and no parts of life where economics can’t tell you everything," he said. "As for areas like Aboriginal problems, well, it would be a great shame if (economists) weren’t asked for their input. As regards climate change, with all the long-term investments and huge costs and benefits involved, only a lunatic would say we don’t want economists involved, and only a lunatic would suggest that only economists be involved." Wolters concurs. "I have enormous faith that simple economics can help with the water crisis. As for the Aboriginal crisis, some of those problems are about economic development and others are simple observations. "For example, teachers don’t get paid enough to teach in the hardest parts of the country. You can change that: it’s a question of the allocation of scarce resources. Wolters does humbly add, "The questions of addiction are more complex, so maybe we should be modest there."

Another group that might fear the intriguing minds of economists is the bureaucracy.

Says Harford, "Central to the new economics is randomised evaluation of policies, but bureaucrats don’t like it, they don’t want someone going back over their programs and saying it didn’t work. They don’t want to have to say to their bosses, ‘We had this textbook program for poor schools and it didn’t work.’"

Indeed Andrew Leigh, who has studied such issues as the impact of class sizes, social cohesion and integration, and the electoral chances of beautiful politicians, says Australian bureaucracy is already batten down the hatches against outside scrutiny.

"Government departments are reluctant to release data on their programs and the Australian Bureau of Statistics makes no data of any complexity available because it’s constrained by political masters who place a higher value on confidentiality than on the public’s right to know," he says.

"Let’s of the analysts think of an economically important issue has come out of having access to this sort of government data. For instance, the study on how having a black-sounding name affects job offers was only possible because economists had access to a database of 30 million names in the US."

To the new economists, cutting off access to data is as lethal as cutting blood supply. While they have critics who’d be happy to cut off their supply, they also have many fans who have seen what they can do and want to see more.

That perhaps the biggest impact of the new economists will be in the new fields they wander into and in more language they impart into new territories.

As Wolters says, economics is becoming the language of the body politic. "We’re moving beyond left versus right arguments, and the question that is being asked about programs isn’t about whether to intervene or not, but what are the best tools to use."

"The way we talk about environmental policy reflects this. We talk about tradable emission permits and market-based solutions and the costs and benefits of various actions. In discussions in the US, the question people are asking about all sorts of measures (such as no-fault divorce) is, What is the evidence of its effects? So, already there has been a shift to evidence-based policymaking."

The language of the new economist is also making inroads here. Before those 2020 delegates convened at Canberra this weekend, they were given briefing papers described as giving"an evidence-based story about how Australia is faring.” And as those 1000 delegates crowded into Parliament House this weekend might have divided, language can shape a debate. The “evidence-based story” they were given to background them for the weekend may also have been an invitation for them to do the same.