30 October 2016

Comments on Kumi Shigehara's Issues Note on

"The Future of Policy Advice by Intergovernmental Institutions: Lessons from the UK's EU Referendum Leave vote"

By

John Martin*

Kumi's note invites us, as former senior officials of the OECD, to reflect on what lessons International organisations (IOs) should draw from the fact that their interventions in the Brexit debate had no apparent impact on the outcome. Was this an isolated event or is it a portent that policy advice from IOs is viewed as less independent or less relevant in to-day's environment of widespread public distrust of political elites and their associated institutions such as IOs? Does it signal that evidence-based policy advice is less valued in a world where social media play a major role in informing/shaping public opinion, often with little regard to facts?[1]

In this note, I reflect on some of the (hindsight) lessons from the interventions by the IOs in the Brexit debate. Then I turn to a more specific issue which has great resonance in current debates: growing inequality in income, wealth and employment, and how the OECD's policy advice has evolved to tackle this challenge, and what it needs to do to ensure that it remains relevant in this debate.

Lessons from the IO interventions in the Brexit debate

The first thing that springs to my mind is that it illustrates a problem with IOs giving policy advice to member governments. How can one maintain an appropriate arms-length relationship from clients when giving them advice, especially if the country in question is a large and influential one? The late Stephen Marris once referred to this as the "pilot fish and shark" dilemma[2]. In

[1] A recent edition of The Economist (September 10th -16th 2016) referred to this phenomenon as "post-truth politics", and highlighted Donald Trump as one of the high priests of this movement.

[2] Stephen Marris was a senior OECD official for three decades from the 1950s to the 1980s. During that time he was the first editor of the OECD Economic Outlook, Director of General Economics Branch of the Economics and Statistics Department, and later Economic Adviser to OECD Secretary-General Emil van Lennep. After

this analogy, the IO is the pilot fish and it seeks to guide the shark (the country), but its dilemma is that it must not get too far in front of the shark otherwise it will lose it, nor swim so close to the shark that it gets gobbled up.

One can see this dilemma very clearly in the Brexit story. Once HM Treasury had issued a report highlighting the potential economic losses to the UK that Brexit could entail, there was no way that either the OECD or the IMF could contradict that key message. Instead, they were co-opted as Remain cheerleaders and derided as false prophets by the Brexit camp.

So how should IOs guard their reputation for independent and reliable analysis and policy recommendations. I have no magic bullets here. However, the following suggestions may help. There is a temptation to give spurious precision to estimates of possible economic and social outcomes from major policy changes such as Brexit. The figures cited by the Treasury, OECD and IMF simulations for possible GDP losses are far too precise to be credible given the uncertainties involved in such a large step into the unknown.

It would seem to me to be wiser to make much greater use of confidence intervals when presenting the results of such simulations. It is striking that none of the simulations, even the so-called "optimistic ones", yielded a possible GDP gain from Brexit. It is hard to believe that one could not construct a scenario that would yield such an outcome, even if only to demonstrate that the conditions needed to arrive at this positive outcome are unlikely to occur in reality. In addition, when discussing such large and unique policy changes, it is important to highlight upfront the risks and uncertainties attached to such simulations.

These, of course, are technical points about how best to present the results of complex simulation exercises. But we know, with hindsight, that the abstract GDP loss estimates carried less weight in the campaign than issues of sovereignty or control over immigration flows. The OECD has at its disposal a lot of information and analyses on the costs and benefits of immigration and alternative ways of controlling such flows. This material could have been given more prominence in our Brexit pronouncements since it is fact-based[3]. Of

leaving OECD, he moved to Washington D.C. as a Fellow of what is now the Peter G. Peterson Institute for International Economics.

[3] If OECD's Brexit statements had been more nuanced and focussed on these issues, it is possible that the following negative comment by the FT's columnist, Wolfang Munchau, in his article of the 25th September 2016 could have been avoided: "… scare stories have added to a generalised loss of confidence in the economics profession and its reputation of independent judgement. With that loss also goes respect for international institutions such as the OECD and the IMF, all willing participants in the anti-Brexit scare".

course, it might have had no impact on public opinion about sovereignty and immigration which tends to be driven by "gut" feelings.

Human psychology and decision-making

Kumi's note refers to the key role of "emotional politics" in determining the Brexit outcome. This suggests to me that IOs need to pay more attention to the insights from psychology and political science about how individuals make choices. Key references here are the 2011 book by the Nobel Laureate Daniel Kahneman,[4] and the 2008 book by Richard Thaler and Cass Sunstein[5]. Kahneman highlights how often humans make choices based on heuristics and biases – our fast-thinking brain-- rather than operating like homo economicus, making use of our slow brain. Thaler and Sunstein show how information about heuristics and biases can be harnassed by policy makers to nudge individuals' choices in desirable directions without restricting their freedom of choice unduly.

This work is still in its infancy but already some of the insights from behavioural economics are feeding into policy actions. It is my impression – I may be wrong here – that the IOs have invested relatively little in this new and exciting field. I think it would be important for their future credibility that they remedy this gap and consider actively how such human psychology insights could improve the relevance of their policy advice.

IOs and Social Media/NGOs

When giving policy advice these days, IOs have to be cognizant of the power and reach of social media. Social media can perpetuate lies and half-truths with amazing speed and they give a licence to so-called "experts" to peddle snake oil. Given this reality, IOs need to have an active and visible presence on social media and not be hesitant about stressing the facts and evidence-based advice. It is my impression that they could do much more in this area to get their policy messages across.

In to-day's world NGOs play a much more active role in the public debate, especially on issues which involve significant spillovers to other countries. Witness their role in the MAI debate or in the current debate on TAFTA. The OECD has long-standing relations with BIAC and TUAC, but it needs to take

[4] See Kahneman, D. (2011), Thinking, Fast and Slow, Allen Lane: London.
[5] See Thaler, R.H., and C.R. Sunstein (2008), Nudge, Yale University Press; New Haven and London.

heed of the views of many more NGOs today and try either to enlist their support or counter their negative propaganda. It is my impression that it has not yet found the right processes to deal with these NGOs and, if truth be told, BIAC and TUAC have tended to resist moves to reduce their privileged status as NGOs at OECD. I think this is an area where the IOs need to engage more while always being aware that the NGOs have their own agendas to pursue.

OECD work on inequality in income and wealth, and employment

Kumi's note calls upon the OECD to pay more attention to so-called "non-economic objectives" when framing its policy advice. But as the 1990 article by Alan Winters which he cites in a footnote makes clear, many such objectives turn out to be amenable to economic analysis and quantification of the costs and benefits of achieving them. Kumi rightly notes that the OECD is ideally placed here among IOs since it covers most of such issues.

Given my past responsibilities at OECD, I would like to reflect on our long-standing work on inequality and on the labour market, how it has had an influence on policy actions by member countries and how it should evolve in the future to preserve this relevance.

The OECD has been working on labour market and inequality issues for over 50 years. The topic of income distribution loomed large in OECD's work in the late 1970s as part of the OECD Social Indicators project. But the advent of the Reagan-Thatcher era in the 1980s led to a marked waning of political interest in distributional issues, and OECD work focussed more on employment issues in the wake of the two oil price shocks.

It was only in the late 1990s and early 2000s that distributional issues forced their way back up the political agenda as it became apparent that the fruits of growth were not being shared equally across the populations in member countries. The OECD has documented the rise of income inequality and the forces at work behind it in two major publications – Growing Unequal? (2008) and Divided We Stand (2011) – and a series of subsequent working papers and reports[6]. The OECD is also working on policy actions to reverse the trend rise in inequality and promote greater equality of opportunity. This involves coordinated actions across fields as diverse as employment, education and training, tax policy, trade and technology. It is also encouraging that the

[6] This work has been undertaken mainly by three branches of the OECD: the Directorate for Employment, Labour and Social Affairs, the Statistics Directorate and the Economics Department, illustrating the horizontal nature of the work on inequality and the OECD's comparative advantage in this area.

OECD is now moving beyond income and consumption distribution issues to look at wealth, though the data bases in this area are less well developed and harder to compare.

Where distributional issues are concerned, it is extremely hard to avoid making value judgements and the OECD has to recognise that different countries have different preferences regarding inequality, growth and life satisfaction. This has to be always borne in mind when making policy recommendations tailored to different countries. But the OECD has managed this tightrope pretty well up to now so that gives some ground for confidence that it will retain its intellectual leadership in this field in the future.

Another area where the OECD has long been a thought leader is the employment field. Indeed, the 1994 Jobs Study was truly a landmark in establishing the Organisation's pre-eminent role as a source of analysis and policy advice to member countries. Mind you, it is important to remember that its diagnosis and policy recommendations were not universally welcomed when they were first issued: the trade unions and countries such as France, Germany, Austria and Belgium were sceptical, not to say hostile, to what they perceived to be a flexibility agenda pushed by the US and UK aimed at weakening union bargaining power and squeezing real wages.

But the ten main recommendations of the Jobs Study were never written in tablets of stone and a series of in-depth country reviews, analytical projects and learning from outside academic research gradually produced refinements to the recommendations and added greatly to knowledge about implementation issues. This led to the Reassessed Jobs Strategy of 2006. By then many more countries had bought into its policy recommendations. Since then, the Great Recession has intervened and many countries have had to grapple again with the challenge of high unemployment and the need to boost employment rates in the face of ageing populations and workforces. Recognising the need to take account of these new circumstances, OECD Employment Ministers at the beginning of this year have mandated the Organisation to again reassess the labour market guidelines in the Jobs Strategy and to report back to them in 2018.

At the same time, there is great concern that the latest technological wave exemplified by the digital economy, the rise of artificial learning and Big Data will destroy many jobs and give rise to large-scale technological unemployment which, in turn, could threaten the stability of our democratic societies. There is nothing new about such fears but one cannot just dismiss them. This is why the OECD and the ILO have launched exercises to assess "The Future of Work".

The OECD has multiple success stories to its credit vis-à-vis policy advice to governments. Recent examples include BEPS, PISA, climate change, etc. The key here is that the work supporting the policy advice is painstaking, of a high professional standard and is conducted with the active involvement and support of most member Governments, and with outreach to relevant NGOs. In this way, the OECD fulfils the mission which Ron Gass, a former Director for Education, Employment, Labour and Social Affairs, once ascribed to it: "Speaking the truth to power".

I am relatively optimistic that the unique strengths of the OECD will continue to influence the actions of member governments in a positive manner so long as it maintains high professional standards in its work and adapts to a world in which there are many other voices competing to gain the ears of governments.

---

[*] Consultant. Research Fellow, UCD Geary Institute for Public Policy, Dublin. Research Fellow Institute for the Study of Labor, Bonn. Member of the Irish government's Labour Market Council. Member of the French Prime Minister's Employment Policy Council. Former Director of the Employment, Labor and Social Affairs Directorate at the OECD. Founding editor of the OECD Employment Outlook and former editor of OECD Economic Outlook.