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Clever Economists Do Better Than Wise Ones

By Dani Rodrik

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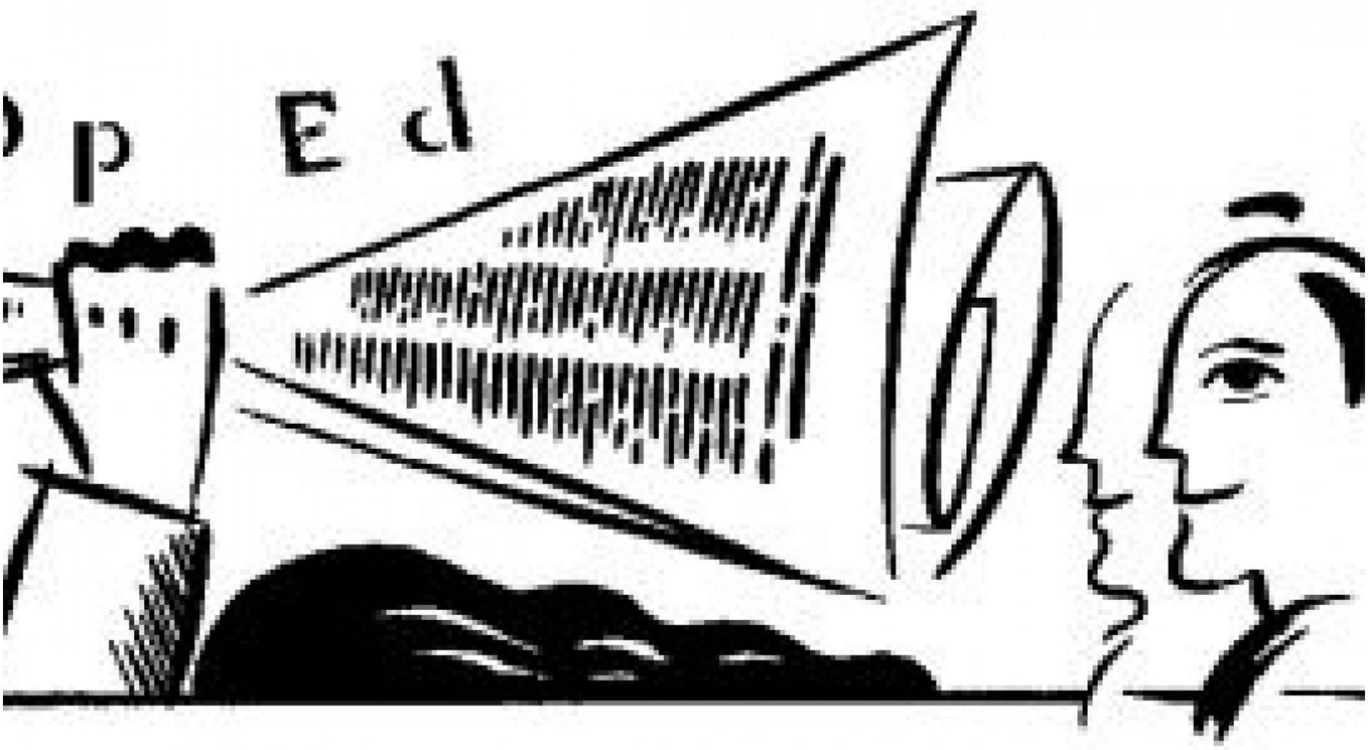

When the stakes are high, it is no surprise that battling political opponents use whatever support they can garner from economists and other researchers. That is what happened when conservative U.S politicians and European Union officials latched on to the work of two Harvard professors — Carmen Reinhart and Kenneth Rogoff — to justify their support of fiscal austerity.

Reinhart and Rogoff published a paper that appeared to show that public-debt levels above 90 percent of gross domestic product significantly impede economic growth. Three economists from the University of Massachusetts at Amherst then did what academics are routinely supposed to do: replicate their colleagues' work and subject it to criticism.

Along with a relatively minor spreadsheet error, they identified some methodological choices in the original Reinhart/Rogoff work that threw the robustness of their results into question. Most important, even though debt levels and growth remained negatively correlated, the evidence for a 90 percent threshold was revealed to be quite weak. As many have argued, the correlation itself could be the result of low growth leading to high indebtedness, rather than the other way around.

Reinhart and Rogoff have strongly contested accusations by many commentators that they were willing, if not willful, participants in a game of political deception. They have defended their empirical methods and insist that they are not the deficit hawks that their critics portray them to be.

The resulting firestorm has clouded a salutary process of scrutiny and refinement of economic research. Reinhart and Rogoff quickly acknowledged the Excel mistake they had made. The dueling analyses clarified the nature of the data, their limitations and the difference that alternative methods of processing them made to the results. Ultimately, Reinhart and Rogoff were not that far apart from their critics on both what the evidence showed and what the policy implications were.

So the silver lining in this fracas is that it showed that economics can progress by the rules of science. No matter how far apart their political views may have been, the two sides shared a common language about what constitutes evidence and — for the most part — a common approach to resolving differences.

The problem lies elsewhere — in the way that economists and their research are used in public debate. The Reinhart/Rogoff affair was not just an academic quibble. Because the 90 percent threshold had become political fodder, its subsequent demolition also gained broader political meaning. Despite their protests, Reinhart and Rogoff were accused of providing scholarly cover for a set of policies for which there was, in fact, limited supporting evidence. One clear lesson is that we need better rules of engagement between economic researchers and policymakers.

A solution that will not work is for economists to second-guess how their ideas will be used or misused in public debate and to shade their public statements accordingly. For example, Reinhart and Rogoff might have downplayed their results, such as they were, to prevent them from being misused by deficit hawks. But few economists are sufficiently well attuned to have a clear idea of how the politics will play out.

Moreover, when economists adjust their message to fit their audience, the result is the opposite of what is intended: They rapidly lose credibility.

Consider what happens in international trade, where such shading of research is established practice. For fear of empowering the "protectionist barbarians," trade economists are prone to exaggerate the benefits of trade and downplay its distributional and other costs. In practice, this often leads to their arguments being captured by interest groups on the other side — global corporations that seek to manipulate trade rules to their own advantage. As a result, economists are rarely viewed as honest brokers in the public debate about globalization.

But economists should match honesty about what their research says with honesty about the inherently provisional nature of what passes as evidence in their profession. Economics, unlike the natural sciences, rarely yields cut-and-dried results. For one thing, all economic reasoning is contextual, with as many conclusions as potential real-world circumstances. All economic propositions are "if-then" statements. Accordingly, figuring out which remedy works best in a particular setting is a craft rather than a science.

Second, empirical evidence is rarely reliable enough to settle decisively a controversy characterized by deeply divided opinion. This is particularly true in macroeconomics, of course, where data are few and open to diverse interpretations.

But even in microeconomics, where it is sometimes possible to generate precise empirical estimates using randomization techniques, the results must be extrapolated in order to be applied in other settings. New economic evidence serves at best to nudge the views — a little here, a little there — of those inclined to be open-minded.

In the memorable words of the World Bank's chief economist, Kaushik Basu, "One thing that experts know, and that non-experts do not, is that they know less than nonexperts think they do." The implications go beyond not over-selling any particular research result. Journalists, politicians and the general public have a tendency to attribute greater authority and precision to what economists say than economists should really feel comfortable with. Unfortunately, economists are rarely humble, especially in public.

There is one other thing that the public should know about economists: It is cleverness, not wisdom, that advances academic economists' careers. Professors at the top universities distinguish themselves today not by being right about the real world but by devising imaginative theoretical twists or developing novel evidence. If these skills also render them perceptive observers of real societies and provide them with sound judgment, it is hardly by design.

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