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What the Policy Maker Needs

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WHEN the founders of the National Bureau of Economic Research took their first fateful decision to set up this now illustrious institution, they can scarcely have guessed that their twenty-fifth anniversary would coincide with the general acceptance by governments of responsibility for endeavoring to maintain what at San Francisco they felt emotionally impelled to call full employment. Personally I dislike this expression. I can understand a full house or even a full belly; but full employment seems to me an abuse of language that becomes an international atrocity when translated into *plein emploi*. But this by the way; the point I wish to make is that statesmen in the future will have a very deep debt to pay to those who twenty-five years ago had the foresight to see the need for collective research devoted to a quantitative analysis of economic structure and dynamics. How fortunate the world would be if science could always precede policy in this way.

Now that governments have committed themselves to doing something about the risk of depressions, committed themselves indeed to the courageous objective of trying to maintain full employment, I want to consider what agencies of information and very broadly—superficially if you will—what types of information they will need to give them some chance of success—or perhaps better, of obviating tragic failure. I shall begin by making one important assumption; namely, that fluctuations in business activity spread naturally from country to country and that no country, unless it is a vast land mass like Russia, rich in almost all natural products and covering many degrees of latitude, can

by itself hope to maintain a high degree of economic activity. I shall assume, that is, that full employment policies must either be international or imply the coordination of national policies. Granted this, then, the problem before us of the research and the research equipment required is largely one of international organization.

But all international research must be based on national foundations and something must therefore be said first about those foundations. The policy maker is necessarily a busy person; he has to know not only about the subject on which he is framing policy, but also about the general and approved objectives of policy and, more difficult because less certain, about what the public and the legislature will accept at any particular moment of time. His are the functions of judgment and imagination. Judgment to decide what should be done; imagination to decide what can be done; and judgment again to marry this 'should' and 'can'. He requires therefore not crude but refined data about the actual situation and about the hopes and threats that it carries for the future. He requires not a steel engraving showing every detail of the picture, but a charcoal sketch throwing the essential into prominence.

But just because the policy maker will in the end form his judgment with a relatively few clear cut facts in his mind, the organization of the essential research presents very real difficulties. The more the policy maker is inclined to think in terms of a few outstanding facts only, the greater is the danger that he will observe results only and not causes, and apply policies that, because they do not go to the root of the matter, prove extravagant of effort and meagre in result. He may be induced, for instance, to check an impending depression by vast additions to the national debt when all that was really necessary was to revive demand in the capital goods industries; he may restrict imports and production when all that was necessary was to institute an international system to facilitate the temporary carrying of larger stocks of raw materials. What is essential therefore is so to organize the re-

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search as to allow its results to be simple, while preventing the policy maker from becoming simplistic.

How can this be done? Obviously, behind any form of economic research must lie an adequate organization of national economic and financial statistics. This need is indeed so obvious that I will not enlarge on it. But there are just two remarks about official statistics that I should like to make. The view used to be widely held that statistics were simply a by-product of administration and should be confined to those subjects for which there was a compelling and immediate need; that logical gaps did not matter; that the administrator (and not the economist) did matter. Surveying the results from the relatively elevated altitude of mountainous Switzerland, that view seemed to me lacking in vision and foresight. It implied no provision for the future, no thought of the interrelationship of economic occurrences. I still think I was right and that the official statistician must consider the working of the whole economic system and what parts of that system he must measure to understand its working.

But, and this is my second point, there is a danger today that too much will be asked of poor and underdeveloped administrations. It is much better that such administrations should devote the limited resources they have at their disposal to producing accurate statistics on the really essential phenomena than that they should fill a thick tome with a measure only of the imagination of their statisticians. I remember that one government not so very many years ago produced on external request a complete census of a string of villages without sending out a single questionnaire or having any inquiries made on the spot. I doubt whether some of the replies furnished more recently to a request—also external—for estimates of national income were much less imaginative or much less dangerous for the policy maker. No, the policy maker requires a record of facts, not of fiction—a record to which he can himself turn to check a contention, but which will be mainly used by the research worker on whom he necessarily relies.

This research must take many forms. I would put first on my national list work such as that done by the National Bureau of Economic Research devoted mainly to examining with scientific care one section after another of the whole fabric of the economic structure or one group of tendencies after another in the aggregate of forces that contribute to economic change—secular or cyclical. The first type of study is important because economic stability can never be achieved by a structure which is itself inherently unstable. One of the gravest dangers that I foresee in the execution of full employment policies in the future is that statesmen may believe that if only the momentum can be maintained at a high enough pitch, balance can be maintained forever. This is the type of view that is dear to the hearts of the enthusiastic young economists who prefer logic chopping to facts and to certain of our abstract mathematical reasoners who prefer symbols to human beings. It might be true if there were no boulders on the path. But there are boulders and the structure must be ready to meet them. The policy maker must not be allowed to become a speed hog. If he does, sooner or later a national disaster will occur, and, if the nation in question is an important one, this will be followed by international disaster. No, it is of the utmost importance that bodies like the National Bureau of Economic Research should examine and re-examine the whole economic structure, check and test it with a view not only to understanding its mechanism but also to detecting the weak spots. Work of this sort is, I think, better done by a private agency than by the government, because no government, however scientifically minded, can be relied on to persist in this constant overhauling day by day and year by year. Sooner or later it will be subjected to pressure to economize, and long term research of this sort, which may for quite considerable periods result in no single, striking discovery obviously influencing policy, will be peculiarly vulnerable to attack. It will be vulnerable too, if results are obtained that imply some radical change in policy from which some powerful political group fears it may suffer. A

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private agency presents other still more important advantages. It affords as it were a workshop to which economists can turn for help when some piece of research demands more elaborate inquiry or analysis than can be carried out by an individual working alone. The whole body of economists benefits from this facility and the collective work of the agency benefits from the inflow of new minds and contact with fresh points of view.

At the same time there can be no doubt that nearly all governments, if they are to make themselves responsible for full employment, will require a much more elaborate machinery for examining the national economic structure than they have possessed in the past. Such examination frequently postulates mandatory powers, which the government alone possesses; it will certainly necessitate also the employment of many more competent and experienced economists by governments than has been customary in peacetime in the past. We may expect indeed a steady expansion of the scope of government research; but the policy maker would certainly suffer if this led to any restriction of private research. The private worker should be constantly exploring new fields, testing new and old theories, demonstrating the effects, good and bad, of government policies. He should be a trail maker and scientific critic.

I have been discussing up to now the study of the economic structure and the changes to which it is subject. But the policy maker is particularly concerned with secular and above all with cyclical movements in economic activity. The nature of such movements needs to be constantly examined in order to ascertain the points at which the free flow of production is liable to be interrupted, at which demand becomes replete or threatens to wane, at which a transfer of resources to other activities is likely to be required. How should such business cycle analysis be organized—by governments or by private agencies?

It is fashionable today to think in global terms, in terms of the national income and the major classes of participants in that income—recipients of wages, interest, dividends, etc.—or in terms

of the national product and the main contributors to that product—agriculture, mining, manufacturing, banking, etc. Economic activity is thus depicted as flows of values expressed in terms of money from the major classes of producers to the major classes of consumers. Into this vascular system the greater part of economic phenomena can be fitted.

The provision of such data, if possible in the form of monthly returns, is no doubt of great convenience to the policy maker. It permits him to obtain at a glance an over-all picture of the broad changes that are taking place in economic activity. But there is also danger in relying exclusively on this form of presentation; for it is liable to divert his attention from cause to effect and to tempt him to overcome causes of waning activity not by an attack on the causes themselves but simply by floating off the economic bark on a flood of money. What is required in business cycle policy is first, to remove all obstructions to the ready adaptation of resources to meet changes in demand or to respond to technological changes in production; and secondly to find a temporary alternative for a demand that has receded but may be expected with confidence to revive later. The national income analysis, if relied on exclusively, may lead to the second expedient always taking precedence over the first. It is useful, but it may be dangerous, and it is not enough.

Something more is wanted: namely a current analysis of the whole business cycle situation industry by industry. There can, I think, be no doubt that the government can produce national income figures more easily than any private agency. It can and should produce also regular data about the activity of different branches of industry, as the United States government does in the *Survey of Current Business*. It is much more doubtful whether it should be looked to as the best or unique agency for the thoughtful, scientific business analysis that I have in mind. Imagine, for instance, that business activity in some country is being impeded because the lumber interests or a trade union are making building unprofitable, because the government is

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keeping stocks of some important raw material off the market under pressure from the agriculturists, because the government is paying transport workers wages out of line with the general cost structure, or because the foreign exchange has been stabilized at too high a rate. In all these cases the government research worker might find himself embarrassed or muzzled. But the policy maker must be made aware of the facts and made aware not in a haphazard fashion, but through some agency that is adequately equipped to carry on independent and scientific work; and the leaders of industry and of labor must be likewise kept informed, for without their active and enlightened cooperation the policy maker cannot hope to succeed. There is in my opinion the strongest possible case for reviving the business cycle institutes that have suffered from the war and of starting such institutes in certain countries in which they were previously lacking.

The reputation of private business cycle research has, I believe, suffered unduly from the fact that in one or two cases those responsible for its conduct have believed in their personal gift of prophecy. Meteorological offices are characterized by the same faith and are still publicly tolerated. Maybe rain is more predictable than man. But is it necessary to be prophetic in order to be pertinent? What is wanted in business cycle analysis is to watch the points of growth and the points of obstruction, to indicate that advance or revival is being impeded because of one event or another. It is surely unnecessary to go on from this to foretell that granted certain measures are taken, an advance of x percent in national income will be registered, or, that granted nothing is done, the stock exchange will rise or fall. The work should be designed for policy makers, not for punters on the stock exchange—even though it may be easier for the research worker to become a punter than a policy maker.

What is required therefore of each nation, as I see it, is first, the provision by the government of statistics adequate to afford an accurate picture of the contribution of different classes of industry and trade to aggregate production; secondly, the pro-

vision, also by the government, of data as complete as is compatible with accuracy showing the changes in activity, data that should include but not be confined to current estimates of national income; thirdly, private research into the economic structure and the changes it undergoes; and finally, in most industrial countries at any rate, private business cycle research, which should cover also secular movements.

The international needs are I think a little different. There is the same need for the collection and presentation of data intended to afford a picture of the economic structure, of the constituent parts of the economic world and their relative importance, the relative contribution of one country or another to world production or world trade, the ratio that the trade of the world or some part of it constitutes of production, the relative importance in trade of food or raw materials or manufactured goods. This general picture—this instantaneous photograph—of the world and its parts is of particular importance, first, because no government has so clear a picture of the world as it has of the area it controls; and secondly, because it is the starting point for the next essential piece of work: the analysis of those long term tendencies that can be traced only by the examination of world data.

Business cycle policies, full employment policies, must be formulated in the light of the trend of demographic change, of the relative rate of growth in agriculture, industry and trade, and in each of the various subdivisions that make up these aggregates. Outside Russia which, as I have already remarked, is rather a land mass than a country, no government can formulate an agricultural policy or a commercial policy, no mining or great industrial enterprise can make its plans for the future without a knowledge of the world picture and the world trends. If long term policy runs counter to long term trends, cyclical policy will almost certainly break down.

The League of Nations endeavored to present this picture and trace these trends during the twenty-five years of its existence. It

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furnished, in addition, through its *Bulletin of Statistics* a nucleus of the essential statistics reflecting the fluctuations in world economic activity. But during most of these twenty-five years the theory of cyclical fluctuations was in its infancy and not until this period and the League itself were reaching their end did governments assume responsibility for maintaining a high and stable level of employment. More will be required therefore of the United Nations services than the League attempted. These services must in the first instance collate, coordinate, and combine, so far as currency conditions permit such combination, the national income statistics which many governments will certainly prepare to guide their policies and measure their success. The annual figures, which must of course be supplemented by those of world trade, will give some indication of the relative importance of different countries to world economy. Both the annual and the monthly figures will give the simplest picture of changes in prosperity and of changes in the relative importance of investment and consumer industries in different parts of the world. They will be as useful, indeed as essential to those responsible for coordinating national full employment policies as the figures for each country are for each country's statesmen and leaders of industry.

But depressions and booms spread across the face of the globe through the channels of trade. When the foreign demand of any country slackens owing to a slackening of its general activity, business in other countries will suffer, and the balance of trade and balance of payments of these countries will be adversely affected. A constant watch will therefore have to be kept on these changes in balances and in the direction of trade, for they are, as it were, signposts pointing to world prosperity or world disaster. But national income figures can only give a picture of the changes in large aggregates of demand and supply, and balance of payments figures can only measure the strains to which the economy of certain countries is in fact being subjected. Neither the one nor the other are adequate for an analysis of causes.

Were the new international services to limit themselves to a statistical presentation of these classes of facts, there would be a grave danger that the international policy makers might be tempted to confine their recommendations to proposals in favor of restrictive trade or production policies. It is indeed the causes, not simply their effects, that matter, and the most important work which the United Nations services will have to perform will be to search for causes.

This search will imply in the first instance the establishment of an organ of business cycle research similar to the national institutions to which I have already referred. It will imply an examination not only of the shifts in demand for consumers' or investment goods by the public or the government, for foreign or domestic goods, but also of the shifts affecting individual commodities and individual industries. It will imply similarly an examination of the factors impeding the transfer of resources to meet these shifts or to meet changes in the technique of production.

International work of this kind and of this scope will obviously demand the closest cooperation with the governmental research bureaus and the national research institutes. I have suggested that the national research institutes should preferably be private and should supplement national official work. Should there also be a private international business cycle research institute? I think the arguments I have put forward in favor of private national institutes are valid in the international field. But such an agency, to be successful, should emanate from the national bodies. It should reflect the best thought in these bodies; it should be a quasi-cooperative institution and should offer an opportunity to national research workers to spend a year or two studying the problems on which they are engaged at home in their international setting. It should therefore in addition to its permanent staff be refreshed by a steady flow of workers from national centres.

All this is important and such an international institute as I

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have in mind might prove of great value to the international policy makers. But some years must pass before it can be realized. The national organs must be firmly established before they can give themselves an international crown. But the policy makers cannot wait for this coronation; they must have at their immediate disposal a research bureau equipped with the most competent possible staff. The organization of such a bureau is indeed in my opinion one of the most urgent problems with which the Economic and Social Council will have to deal.

But more than this is wanted. Changes in economic activity in any country may result from changes in demand or its rate of growth, changes in production or methods of production, or from changes in policy. No responsible international economic commission can study intelligently the statistical manifestations of changes in activity unless it is kept fully informed about the policies that governments are pursuing. One of the important tasks therefore which will fall to the United Nations secretariat is that of furnishing the Economic and Social Council and its various Commissions with information about the influence of policy, whether of governments or credit institutions, upon the course of economic events.

With all this information at his disposal the policy maker will have to make those rough guesses about the actual economic situation, its major causes and possible remedies when remedy is required, which are the most we can hope for in human affairs. But the validity of his guesses will be determined in part by the accuracy of the figures with which he is furnished. He will always be faced by the difficulty arising from the lack of comparability in international statistics. This lack of comparability may be due either to the fact that phenomena bearing the same name in two countries are not identical or to the fact that the systems of statistical measurement differ. The first cause of incomparability can never be wholly overcome. The second may be gradually eliminated. I would add therefore as my final item in this list of requirements the continuation of the work begun by

the League for the promotion of greater comparability in international statistics.

In preparing this list I have been conscious at once of how much is demanded that at present is lacking and of how much I have omitted. Indeed in spite of all the work which has been undertaken by the National Bureau of Economic Research and other similar bodies, in spite of the recent improvement in the scientific equipment of governments, no government is really adequately equipped to implement any promise it may have made to maintain a high and stable level of employment. And in the international field governments have lost the greater part of what little equipment they had and will be forced both to build up a new machinery and train new machine minders. This is a serious situation when we remember that great wars tend sooner or later to generate great depressions. The United Nations have an almost overwhelming organizational task to perform at the outset of their career. The most optimistic internationalist can scarcely expect them to furnish anything like adequate services for some years to come. This fact makes the organization of private collective research in all the more important countries of the world a matter of very genuine urgency; it constitutes a challenge to all economists to make what contribution they can to economic and hence to social stability.