

The role of analysis and how can we use it?

Herb Emery, Vaughan Chair in Regional Economics, Director Atlantic Institute for Policy Research, UNB
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Analysis, information, evidence are intended to improve decision making.

- More information is better than less information

Analysts and non-elected economists do not make the decisions

- Role is to identify trade-offs for decision makers (Along with CARE, Trevor Tombe's, Laurence Booth's, Jim Stanford's and Kerry Murray's presentations are great examples)
- Plurality of views based on evidence builds the information base and keeps options and thinking open — convergence of views can strengthen confidence in choice to make

As Danny Williams reminded us, we have to remember that decision makers make choices about policies under uncertainty — choices come with risks

- They don't know exactly what will happen for populations where the costs and benefits of the outcomes are not borne equally.
- And costs may be borne today in return for prospect of a future benefit — we are competing with the Church — the church has faith, we have analysis

Decision makers live in an ex ante world — have to predict the future

Analysts live on the frontier of the ex post world — Analysis leverages historical data, known outcomes, experiences of others and assumptions about the present and future to explain the past and present to inform predictions of the future

Analysis can be used in ex ante decisions (a really boring pre-game show explaining who could win and what it would take) or it is used for after the fact "forensics" (boring post game show explaining why the winner won and the loser lost ... to learn how to win next time)

- It can be used pre game to help the coach choose lines and strategies — Economists like Wade Locke, organizations like CARE, have been taking this harder path of building regional capacity to support the decision makers in real time with ex ante choices
- It can be used post game to investigate and judge the decisions of coaches and performance of players ... to inform future decisions of what to do next time— Economic historians like me, and my AIPR, see more growth opportunity after the next fiscal disaster doing the ex post work. (Maritime example: Was joining Confederation a mistake?)
 - It's publishable and Brad Pitt might star in the movie based on a book about why the crisis happened and the lessons we can learn from having ignored Wade and CARE when the decision was made.

There is a counter-cyclical demand for analysis — In my experience with many provinces and Ottawa, demand for analysis and decision support grows as fiscal positions worsen

- When fiscal positions are strong, and windfalls abound like an energy boom, the value of analysis is lower since mistakes aren't as costly... you can still recover. Gambling, risk taking, being bold becomes the value voters like since the party is awesome

- As the house starts to win more often, the losses mount, the monies to get back in the game get tighter, and voters start asking for more analysis and investigating who is responsible for the “ex post” mistakes
- Analysts inevitably conclude that with the proper analysis done prior to the decision the bad outcome would not have occurred
- We blame the gambler for not being savvy rather than admitting gambling is risky
- Perversely, when the analysis says stop gambling/betting, voters demand decision makers ignore the analysis since it means realizing the losses and telling the spouse...

Analysis, evidence can reduce the risk of being hung with the legacy of a mistake and satisfies values of prudence in decision making and not gambling (excessively)

- A policy mistake is an interpretation critics give to an outcome after that fact where the decision resulted in more costs than benefits
- Hindsight analysis easily identifies mistakes by mis-representing the decision context and information environment
 - strengthened by populist beliefs that decision makers knew more than they admitted and “political influences”
 - People aren’t comfortable with luck and randomness
- Problem with this perspective is that an ex ante (pre-game) good decision can still ex post (post-game) be a loss
 - Inappropriately judging an ex ante decision with an ex post outcome can lead to risk averse decision makers who doom the population to whatever the status quo is headed to
 - I won a prize for a publication making the point that a sound ex ante decision is almost always declared ex post a mistake - either too generous given how big the benefits turned out to be, or a waste of money given the costs without benefit
 - Churchill Falls and Muskrat Falls likely both fit this from what I have read
- The test of an outcome being the result of a mistake is simply asking the decision maker after the fact, “knowing what you know now, would you have still made the same decision?”
 - As we heard today, many former leaders will tell you yes even when they are vilified by critics for the outcome for generations
 - And they are not wrong

So let me finish by answering Wade’s question — How should we use analysis be used? Yes, it should be used for evidence based decision making instead of what is more and more for policy based evidence making.

But, here is the problem, we aren’t developing the economic analysis capacity in the region and it will have devastating fiscal impacts on the region. Ottawa and the big centres will produce the analysis that informs decisions made about us and for us.

The decline of the importance of analysis, and the decline of the ex ante value of analysis, has been underway for some time — the technocratic revolutions of the post war economy have been winding down

- Evidence based policy making has given way to policy based evidence making — just watch the federal election promises

“The Death of Expertise” — Experts can’t be trusted. We often hear that the producers of analysis/evidence/information have conflicts of interest — they have worked with industry, worked with the (wrong) political party, joined the wrong organization in university

- Critics attack the expert not the analysis
- Ideas aren’t tested on their merits, they are judged by who expressed them

We often hear concerns about the “quality of information/analysis/evidence” meaning we aren’t sure how valuable it is, and are making a case that it can be discounted or ignored when we make our decisions

We hear economists have ideological agendas that lead to an opposition to progressive policies — economists value Pareto (allocative efficiency), balanced budgets and can tolerate inequality while prioritizing wealth creation since efficiency and distributional goals are separable. Progressive economists and other social science critics of economics reject that distributional goals can be separated from efficiency considerations and worry less about wealth creation and more about distributive goals and happiness of the population

- Sidebar — there is a disagreement in these views as to whether the government faces a budget constraint, and whether the population is willing to accept lower consumption if GDP does not grow — see the de-growthers
 - Doctors in Canada have yet to announce that they will accept lower pay if governments prioritize the social determinants of health over growing the economy
 - Doctors were not happy about higher taxes on their corporations proposed by Trudeau/Morneau a few years ago
- The importance of analysis, or its value for decision makers, declines if analysis is based on values and assumptions that aren’t consistent with values of the population and the operation of the economy.

We see that more and more a formerly policy disinterested civil service and objective academia becoming more interested and more ideological driven (though I accept that academics have always been alleged to have been biased and ideological).

We have allowed the advocates and political operatives to debase the value of analysis which means much more freedom in policy promises and policy development for decision makers.

The big question is whether this liberation of political decision making from analysis/evidence and information is in our society’s longer term interests — we are enjoying ourselves in short run.

The importance of analysis and the value of analysis is shifting but not disappearing. Economists and other fiscal analysts will have high demand for their work in the role of “policy coroners”... figuring out what went wrong to help the next generation learn from the mistakes of the past.

Or we may simply be expert witnesses for the inquiry and royal commissions that Canada loves to have after things have gone off the rails.

The tragedy may be that the importance of analysis, and its value, can only be appreciated once it is too late to be useful for avoiding disaster or mitigating the downstream damage

So let me finish by pointing out that the audience today and what you do with the information will be what determines if today's conference is important, and valuable, for shaping future of the province, or as part of an evidence base in the ex post investigation of what went wrong when revenues didn't grow like the decision makers bet they would.